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NDB Annual Report 2020

New Development Bank

Annual Report 2020

Meeting ever-evolving development challenges

Source: Shanghai Lingang Hongbo New Energy Development Co., Ltd

Contents

This Annual Report sets out the progress made in 2020 by the New Development Bank (NDB or the Bank) in delivering on its mandate of mobilising resources for infrastructure and sustainable development projects to support global growth.

Chapter 1 provides a snapshot of its essence and major operational and financial numbers. Chapter 2 describes NDB's response to COVID-19 while Chapter 3 highlights cooperation among its member countries and the Bank's approach to extending its scope by engaging with potential new members and stepping up dialogue with the international development community. In Chapter 4, this report presents its strategy implementation, including development impact and considerations on environmental, social and governance issues and Chapter 5 concludes by discussing the Bank's operational performance, treasury and financial activities. This report also contains NDB's Annual Financial Statements for the year ended at 31 December 2020 and related analysis.

2020 was a transitional year for NDB and one in which it faced some significant challenges. As the Bank completed its first five full years of operation, it swiftly responded to member countries' demands in facing the COVID-19 pandemic.
It has relied on its robust foundations to actively deal with ever-evolving development challenges under the continuing objective of building a talent-centred development finance institution for the 21st century. Going forward, NDB will strive to offer more sophisticated and innovative solutions to its members and the wider development community by fostering dialogue and international cooperation through development networks and encouraging new business partnerships.

Message from the President

“Aligning NDB to its objectives will benefit from progress in four main areas: enhancing our sophistication to deal with complex themes and projects; leading development networks; expanding our membership; and mobilising resources through innovative mechanisms and financial structures.”

Mr. Marcos Troyjo
President

In 2020, the New Development Bank completed its first five-year cycle amid one of the most profound global crises ever experienced by the development community. The dimension of the public health, social and economic challenges posed by the COVID-19 pandemic required swift and unprecedented action from national and international institutions. NDB stepped up to respond to the urgent needs of its member countries from a very early stage of the pandemic, setting aside a total of USD 10 billion to support immediate measures and economic recovery through its Fast-Track Emergency Assistance Response Facility.

NDB's staff team started exploring the possibility of an emergency loan in February 2020, reinforcing NDB's commitment to meet evolving development challenges. In March 2020, NDB approved its first COVID-19 loan aimed at supporting immediate health and social relief measures. Operations were approved for China, India, South Africa and Brazil. In December 2020, NDB approved two additional loans for supporting economic recovery in Brazil and in India, raising the total amount of COVID-related approved operations to USD 6 billion.

The crisis has also shed light on the intricacies of the many opportunities and challenges that influence development and finance today: the digital economy, connectivity and new infrastructure, the future of work, the fourth industrial revolution, persistent inequality and sustainability. It has reinforced the importance of international cooperation and the challenges of the development community in catering for a future that will require skills, institutions and networks different from today's. NDB has also responded to these challenges by entering a new phase of organisational development, international cooperation and development outreach.

Under the leadership of my predecessor, Mr. K.V. Kamath, NDB laid its initial foundations by establishing policies and procedures in its first five years of operation for the institution to take on more challenges as demanded by its member countries. The Bank focused on gaining scale and relevance, and the loan book has grown robustly. In 2018, NDB obtained international credit ratings of AA+ from both S&P and Fitch. The Bank also obtained, in 2019 and 2020, AAA international credit rating from the Japan Credit Rating Agency and the Analytical Credit Rating Agency, respectively. NDB's credit rating has allowed the Bank to widen its access to a worldwide investor base at competitive rates. The Bank also expanded its outreach through establishing regional offices in South Africa, Brazil and Russia, and started preparations for the establishment of local presence in India in 2021.

The challenging operating environment in 2020 has not compromised the quality of our solutions, the speed of our delivery, and our commitment to member countries. Our project portfolio continued to grow. In 2020, the Bank approved 19 loans, adding USD 10.3 billion to our loan book, which totalled USD 24.4 billion at the end of 2020, a 63.6% increase over the previous year's portfolio.

The Bank has leveraged its access to international investors to fund the emergency response programme. In 2020, we made four public bond issues, including the Bank's first USD bond. Two RMB bonds of RMB 5 billion and RMB 2 billion were issued, in April and in July respectively, the former constituting the largest bond issue by an international institution in China. The Bank's first USD bond was issued in June 2020 in the amount of USD 1.5 billion, followed by the second for USD 2 billion, in September 2020.

As the Bank closed a five-year cycle in 2020, it was a time to look at and assess our journey. It was also a year to draw the lessons learned from the first five years to help shape the future of our institution, taking full advantage of the first-hand knowledge we have gained from operating in the five BRICS countries. As a consequence, we have embraced important new initiatives to make the institution more relevant, innovative and talent-intense.

Since July 2020, when I took office as president of the Bank, I have committed to fulfilling the mandate of mobilising resources for infrastructure and sustainable

USD 10.3 bn

Approved loans in 2020

USD 24.4 bn

End-2020 portfolio

Our challenges

The crisis has also shed light on the intricacies of the many opportunities and challenges that influence development and finance today:

- the digital economy,
- connectivity and new infrastructure,
- the future of work,
- the fourth industrial revolution,
- persistent inequality, and
- sustainability.

NDB has also responded to these challenges by entering a new phase of organisational development, international cooperation and development outreach.

Read more

Five years in Numbers
NDB's five year performance at a glance
See page 14

COVID-19 Response programme
Read more about NDB's emergency response programme to the global pandemic
See pages 17–22

Treasury activities and Risk Management
Find out more about NDB's treasury activities and risk management
See pages 38–89

development by building upon our unique value proposition to the development community. This means relying on the founding members' spirit of ushering in a greater global role for emerging markets and developing economies by leveraging their dynamism, diversity and international cooperation. As an innovative institution, NDB has to permanently be up to the challenge of being always New.

As we look forward, aligning our institution to our objectives will benefit from progress in four main areas:

- Enhancing the Bank's sophistication to respond to a challenging and complex reality, both in terms of themes and projects. This requires a strong focus on attracting, building and retaining talent and on working hand in hand with the private sector in innovative financing methods, such as project finance, syndication, project bonds and guarantees. It also involves working in new areas that are a crucial part of sustainable infrastructure including technology and connectivity and climate change;
- Leading conversations on development through international outreach and cooperation with initiatives that foster regular interactions between NDB's teams and thought leaders and further enhance NDB's role as a cooperation hub;
- Expanding our membership, to strengthen our global scope, enrich our value proposition, reinforce our diversity and enlarge our capital base; and
- Mobilising resources through innovative cooperation mechanisms and financial structures that bring together public and private sector institutions to explore new business opportunities, synergies and development innovations.

> As an innovative institution, NDB has to permanently be up to the challenge of being always New.
>
> **Mr. Marcos Troyjo**
> **President**

In shaping the Bank to be a 21st century institution, a new organisational structure was approved by NDB's Board of Directors in December 2020. It preserves the objective of being lean and efficient with an emphasis on talent. It will be fully implemented, in a phased manner, in 2021. In the new organisational structure, a Talent Management Division under the Human Resources Department will be fully dedicated to attracting, retaining, developing and managing NDB's talent. A new Private Sector and Non-Sovereign Transactions Department under the Operations Vice Presidency will support the Bank's vision of expanding its private sector portfolio; and a new ESG Department under the Strategy and Risk Vice Presidency will reinforce the Bank's commitment to environmental and social standards that are in line with our members' country systems and will contribute to addressing global challenges of combating inequality and climate change.

This report highlights NDB's initiatives in 2020 to fulfil its mandate in the face of evolving development challenges. We will spare no effort to contribute to a world where emerging markets and developing countries are home not only to most of the global development challenges but also to sound solutions, based on worldwide cooperation. Our impact stories show that our mission is fully under way. In the next years, we would like to deepen and broaden our impact and be able to offer more sophisticated solutions to our member countries and the global development community.

As we move forward, it will be important to remember 2020 as a critical year, in which the COVID-19 crisis has deepened our perception of a world in flux, from which we can only emerge stronger by permanent learning and sharing. NDB Management and staff are fully committed to enhancing the Bank's contributions to our member countries and the global development community by being New every day.

Management team

Mr. Marcos Troyjo
President[1a]

Mr. Vladimir Kazbekov
Vice President
Chief Administrative Officer

Mr. Anil Kishora
Vice President
Chief Risk Officer[1b]

Mr. Xian Zhu
Vice President
Chief Operations Officer

Mr. Leslie Maasdorp
Vice President
Chief Financial Officer

1a Mr. Marcos Troyjo, from Brazil, succeeded Mr. KV Kamath, from India, as President on July 7, 2020.
1b Mr. Anil Kishora, from India, succeeded Mr. Sarquis José Buainain Sarquis, from Brazil, as VP and Chief Risk Officer on July 7, 2020.

Read more
To learn more about our senior management please scan the QR code

NDB is the only multilateral development institution that contains New in its name. The Bank embodies the idea of a larger role for emerging markets and developing countries in the world and in shaping development finance through international cooperation.

Chapter 1

Our story: a demand-driven institution

NDB's new headquarters in Shanghai, while under construction

NDB has a unique governance structure, in which the five founding members have equal shareholding power and none of them has veto power over any matter.

To fulfil the original aspirations of its founding members, the Bank has to permanently respond to development challenges by being New every day.

Who we are

The New Development Bank is a multilateral development bank (MDB) established in 2015 by Brazil, Russia, India, China and South Africa (BRICS). Its objective is financing infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries (EMDC).

NDB's work complements the efforts of multilateral and regional financial institutions toward global growth and development. This is in a context where EMDCs continue to face significant financing constraints to address infrastructure gaps and sustainable development needs. NDB is the first MDB envisioned to be of a geographically global scope, founded solely by developing countries. Its membership is open to all members of the United Nations.

In accordance with its Articles of Agreement (AoA), the initial authorised capital of NDB is USD 100 billion, of which USD 50 billion has been subscribed equally by the five founding members. The Bank's initial subscribed capital is composed of paid-in capital of USD 10 billion and callable capital of USD 40 billion. NDB has a unique governance structure, in which the five founding members have equal shareholding and none of them has veto power over any matter.

NDB is a demand-driven institution and supports projects tailored to the priorities of member countries, within a framework of respect for national sovereignty.

What we do

Our work is centred around maximising the impact of development in an agile, flexible and efficient manner. To catalyse the kind of development we envisage, we are always keen to listen, learn and collaborate with other MDBs, governments, financial institutions and civil society, including non-governmental organisations, academia and think tanks.

To fulfil its purpose, the Bank supports public and private projects through financial instruments such as loans, guarantees, equity participation, and other financial products, within nine Key Areas of Operation. The Bank also provides technical assistance for the projects it supports.

How we operate

NDB's business model relies on the proven model of traditional MDBs of leveraging the capital and knowledge of its members for development purposes. Based on a risk-based, prudent and conservative funding and financial strategy, NDB issues bonds in international markets and in the domestic markets of its member countries. As a multilateral development bank with high credit ratings, NDB is able to access debt capital markets generally at a lower cost of funding than its member countries, mobilising resources at competitive rates for investment in infrastructure and sustainable development.

The Bank relies on local currency lending to the extent feasible to mitigate foreign exchange risks for borrowers. As a supranational institution, NDB operates in accordance with its governance framework and oversight from member countries. While following MDBs' traditional business model, NDB brings a new dimension to the development finance industry. A relationship of equality, mutual respect and trust between NDB and member countries permeates all aspects of the Bank's policies and operations. The Bank follows, whenever possible, nationally defined laws and procedures on project implementation without compromising quality. NDB aims to be fast, flexible and efficient by designing streamlined project reviews and implementation oversight without unnecessary bureaucracy and with high-quality development impacts.

Our clients

In fulfilling its mandate, NDB can extend loans, guarantees, invest in equity or mobilise resources through innovative instruments such as infrastructure funds. Its loans, guarantees and investments can contribute, in isolation or in collaboration with partners, to a diverse set of financial structures, including syndicated loans, project finance and project bonds, among others. Its clients encompass

- national and sub-national governments,
- international and regional financial institutions,
- international organisations,
- national development banks,
- commercial banks,
- private sector and state-owned companies, and
- financial intermediaries (e.g. infrastructure funds and funds of funds).

The specific facilities must follow the Bank's policies.

5 yrs

NDB became fully operational in 2016

20%

Equal shareholding of each Member State

NDB's key areas of operation

- Clean Energy
- Transport Infrastructure
- Irrigation, Water Resource Management and Sanitation
- Urban Development
- Environmental Efficiency
- Social Infrastructure
- Multi-theme
- Digital Infrastructure
- COVID-19 Emergency Assistance

Read more

NDB Organisational Structure
To view NDB's new organisational structure please scan the QR code

Five years in numbers 2016-2020

End-2020 portfolio of projects[2,3]

67 projects

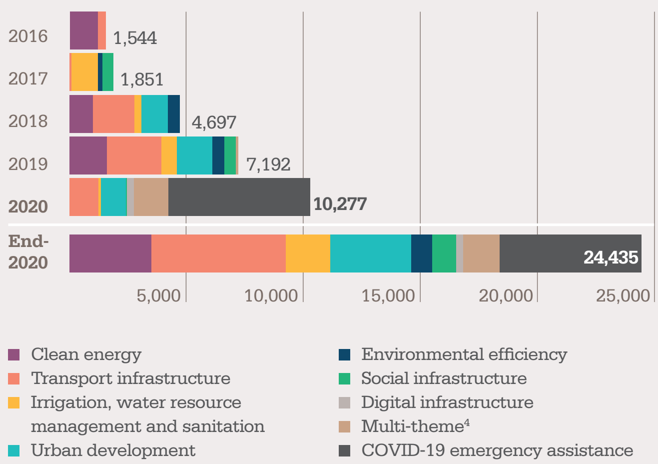
USD 24,435 m

Yearly project approvals

	2016	2017	2018	2019	2020	2016-2020
Number of projects approved	8	6	17	22	**19**	**72**
						USD million
Amount of project approvals	1,544	1,851	4,697	7,192	**10,277**	**25,703**

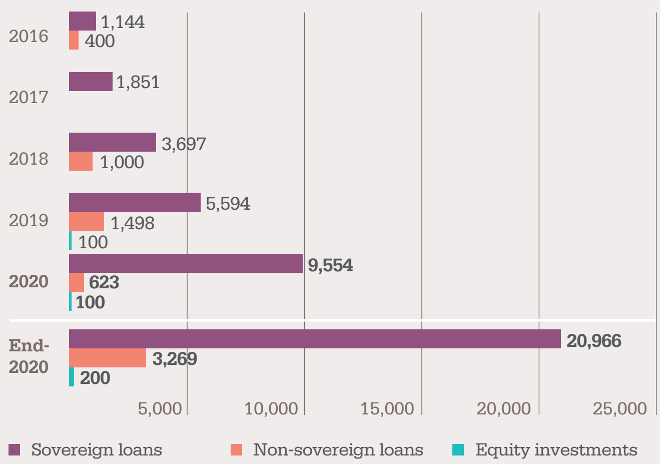
Approvals by key area of operation

USD million



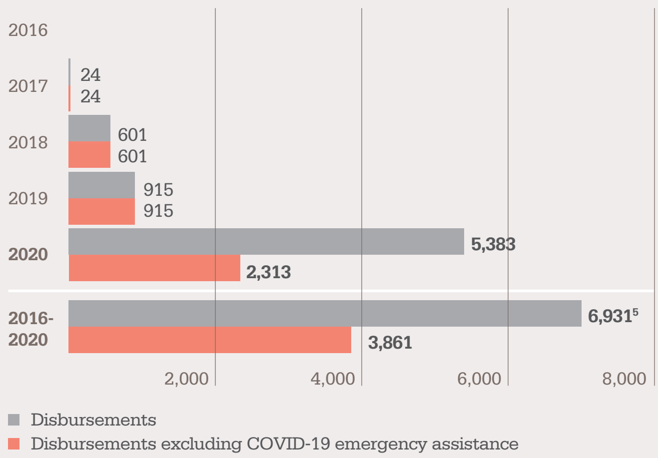
Approvals by type of operation

USD million



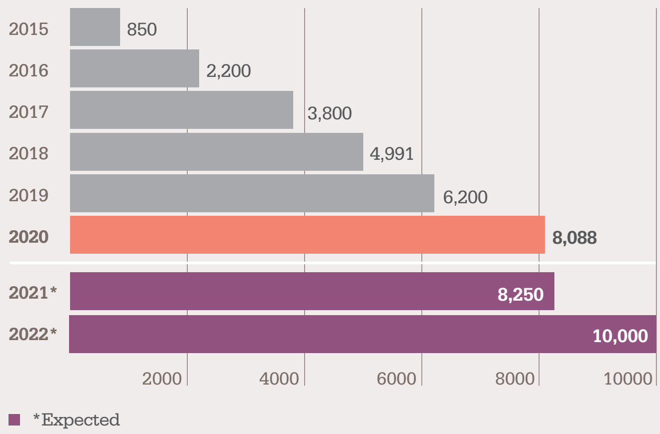
Disbursements

USD million



Cumulative paid-in capital received/expected[6]

As at December 31 USD million



2 Unless otherwise stated, the number of projects in end-2020 portfolio of projects or end-2020 portfolio excludes four projects that were approved and fully cancelled, and one project that was approved and fully repaid. See List of NDB'S Approved Projects in the Annex for details.

3 Unless otherwise stated, the total amount of end-2020 portfolio of projects or end-2020 portfolio are used throughout this report as the sum of project approvals net of the amount of full cancellations, partial cancelations and full repayments, reflecting the amount of NDB's active operations, which thus differ from the sum of yearly approvals and from total approvals in the period 2016-2020. Differences also reflect exchange-rate effects, because yearly approvals are calculated using end-of-year exchange rate, whereas the cumulative 2016-2020 values and end-2020 portfolio use exchange rates as at December 31, 2020. The total amount of end-2020 portfolio excludes the amount of four full cancellations, one partial cancellation and one full repayment.

4 Multi-theme projects refer to on-lending and investment through financial intermediaries with sub-projects in various key areas of NDB's operations.

Approvals by currency

USD million

	2016	2017	2018	2019	2020	End-2020
INR[7]	–	–	–	–	**100**	**100**
RMB	364	307	901	1,228	**1,070**	**3,664**
ZAR	–	–	–	1,235	**–**	**1,183**
CHF	–	–	–	516	**–**	**568**
EUR	–	–	–	500	**541**	**1,040**
USD	1,180	1,554	3,796	3,713	**8,566**	**17,880**

Bond issues

	2016	2017	2018	2019	2020	2016-2020
RMB million						
RMB bonds	3,000	–	–	3,000	**7,000**	**13,000**
USD million						
USD bonds	–	–	–	–	**3,550**	**3,550**

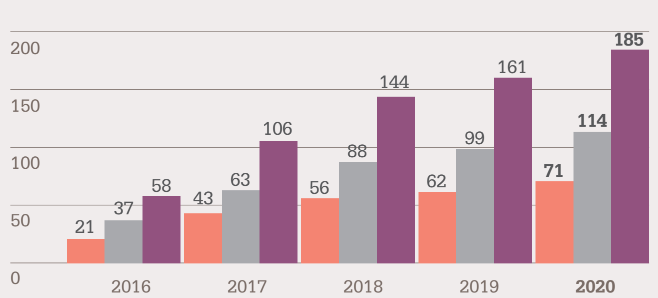
Balance sheet

As at December 31
USD million

Ratio	2016	2017	2018	2019	2020
Assets	10,054	10,224	10,402	11,821	**18,844**
Liabilities	448	455	457	1,649	**8,511**
Equity	9,606	9,769	9,945	10,172	**10,333**

Human resources by gender

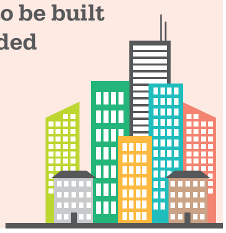
As at December 31



Highlights of expected development results[8]

Cumulative as at 31 December, 2020

SDG alignment	Expected output/outcome
7 Affordable and clean energy	**Renewable and clean energy generation capacity to be installed** 2,800 MW
13 Climate action	**CO_2 emissions to be avoided** 5.5 million tonne/year
9 Industry, innovation and infrastructure	**Roads to be built or upgraded** 15,300 km
9 Industry, innovation and infrastructure	**Bridges to be built or upgraded** 820
6 Clean water and sanitation	**Water tunnel/canal infrastructure to be built or upgraded** 1,300 km
6 Clean water and sanitation	**Drinking water supply capacity to be increased** 159,000 m^3/day
6 Clean water and sanitation	**Sewage treatment capacity** 535,000 m^3/day
11 Sustainable cities and communities	**Urban rail transit networks to be built** 230 km
11 Sustainable cities and communities	**Cities to benefit from NDB's urban development projects** 40
4 Quality education	**Schools to be built or upgraded** 58



5 Disbursements for the period 2015-2020 net of repayments totalled USD 6,609 million.
6 Contributions are due annually on January 3rd.
7 The equity investment approved was up to USD 100 million equivalent to be converted into INR.
8 Expected development results are presented for selected projects financed by NDB, irrespective of the proportion of the Bank's financing in the total project cost. The numbers are rounded, and are based on the information available at the time of approval.

Governance

NDB has a lean governance structure, with the Board of Governors (BoG) as its highest decision-making authority. The non-resident Board of Directors (BoD) is responsible for the general operations of the Bank and exercises all the powers delegated to it by the BoG.

The Bank is run operationally by the Management team, which is composed of the President and four Vice Presidents.

The AoA stipulate that the BoD shall appoint any committee it deems advisable in carrying out the general operations of NDB. The BoD has approved the establishment of four committees to assist it in fulfilling its oversight and decision-making responsibilities:

- the Audit, Risk and Compliance Committee (ARC),
- the Budget, Human Resources and Compensation Committee (BHRC),
- the Credit and Investment Committee (CIC), and
- the Finance Committee (FC).

Board of Governors (BoG)

Main responsibilities

Responsible for deciding on admitting new members and determining the conditions of their admission, increase or decrease of the capital stock, suspending a member, amending the AoA, deciding appeals from interpretations of AoA given by the Directors, authorising the conclusion of general agreements for cooperation with other international organisations, determining the distribution of net income of the Bank, deciding to terminate the operations of the Bank and to distribute its assets, deciding on the number of additional Vice Presidents, electing the President of the Bank, approving a proposal by the BoD to call capital, and approving the General Strategy of the Bank every five years, among other duties. The BoG meets at least annually.

Board of Directors (BoD)

Main responsibilities

Responsible for the conduct of the general operations of NDB, including decisions on business and country strategy, loans, guarantees, equity investments, borrowing, operational policies and procedures, technical assistance and budget review and approval. Provides strategic direction to the Management to achieve the Bank's organisational objectives and oversees the development of its operation. The BoD meets at least quarterly and may convene meetings electronically as needed.

Commitees comprised of Board members

ARC | BHRC

Commitees comprised of the Manangement

CIC | FC

Management

Main responsibilities

Under the leadership of the President as chief of the operating staff, Management is responsible for running the ordinary business of the Bank, including implementing the operational, financial, strategy, risk and administrative policies. The President shall be responsible for the organisation, appointment and dismissal of the officers and staff, and recommendation of Vice Presidents to the Board of Governors.

Composition of NDB's Board of Governors

Mr. Paulo Guedes
Minister of Economy
Federative Republic of Brazil

Mr. Anton Siluanov
Chairperson of the BoG
Minister of Finance
Russian Federation

Mrs. Nirmala Sitharaman
Minister of Finance
Republic of India

Mr. Kun Liu
Minister of Finance
People's Republic of China

Mr. Tito Mboweni
Minister of Finance
Republic of South Africa

Consists of one Governor at ministerial level and one alternate appointed by each member country. The current Chairperson of the BoG is the Governor for Russia, Mr. Anton Siluanov, from April 20, 2020 to March 30, 2021.

The 5th Annual Meeting of the BoG was held virtually on April 20, 2020.

Composition of NDB's Board of Directors

Mr. Roberto Fendt Junior[1]
Deputy Minister for Foreign Trade and International Affairs
Federative Republic of Brazil

Mr. Sergei Storchak
Chairperson of the BoD
Adviser to the Minister of Finance
Russian Federation

Mr. K. Rajaraman
Additional Secretary, Department of Economic Affairs
Ministry of Finance
Republic of India

Mr. Zhongjing Wang[2]
Director-General of Center for Evaluation of the World Bank Loan Projects
Ministry of Finance
People's Republic of China

Mr. Enoch Godongwana
Head of the African National Congress's Economic Transformation Committee
Republic of South Africa

Mr. Marcos Troyjo
President of NDB

Each of the founding members appoints one Director and one alternate for a term of two years. Directors may be re-appointed. The Chairperson of the BoD is appointed by the BoD for a period of four years. The current Chairperson of the BoD is the Director for Russia, Mr. Sergei Storchak, starting from July 21, 2019. The President is also a member of the BoD, but shall have no vote except for a deciding vote in case of an equal division. The BoD functions as a non-resident body. This format enables a swift, flexible and cost-effective decision-making process. The Rules of Procedures of the Board of Directors provides that the BoD may convene meetings electronically as needed.

In 2020, seven BoD meetings and one Board workshop were held (all in virtual format), and 39 inter-sessional decisions were taken.

1 Mr. Roberto Fendt Junior was appointed as the Director for Brazil, effective from 2 December 2020, replacing Ms. Yana Dumaresq, who was appointed as the Director for Brazil in October 2019.
2 Mr. Zhongjing Wang was appointed as the Director for China on June 28, 2020, replacing Mr. Wencai Zhang, who was appointed as the Director in January 2019.

Committees comprised of Board members

Audit, Risk and Compliance Committee (ARC)

The ARC 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 internal and external auditors, ensuring the existence of adequate and effective internal controls and approving the risk management framework. It comprises all members of the BoD and meets at least four times a year. In 2020, the ARC held four meetings, all in virtual format. Among other matters, the ARC has satisfied its responsibilities in compliance with its terms of reference in 2020, including the following duties:

- The ARC has reviewed the audited financial statements with the Management, including a discussion of the quality of the accounting principles as applied, and significant judgments affecting the Bank's financial statements;
- The independent auditors have discussed with the ARC their judgments of the quality of those principles as applied and judgments referred to above under the circumstances;
- The members of the ARC have discussed among themselves, without the Management or the independent auditors being present, the information disclosed to the ARC as described above;
- The ARC, in reliance on the review and discussions conducted with the Management and the independent auditors pursuant to the requirements above, believes that the Bank's financial statements are fairly presented in conformity with International Financial Reporting Standards (IFRSs) in all material respects;
- Review of the risk management reports with the Management. The ARC considers that all the Bank's business is well within the risk limits;
- Review of the updates on compliance issues with the Management; and
- Review of the internal audit reports with the Internal Auditor

The current Chairperson of the ARC is the Director for India[9].

Budget, Human Resources and Compensation Committee (BHRC)

The purpose of the BHRC is to assess the approval of the budget and human resources and compensation-related activities. It comprises all the members of the BoD and meets at least quarterly, or as needed. In 2020, the BHRC held five meetings, all in virtual format. The BHRC has satisfied its responsibilities in compliance with its terms of reference in 2020, and three inter-sessional decisions were taken, including the following duties:

- Preparation and execution of budgets in accordance with organisational objectives;
- Preparation of and revisions to the human resources policies;
- Preparation of and revisions to associated policies related to compensation and benefits; and
- Undertaking the functions as provided for under the Code of Conduct for Board Officials.

The current Chairperson of the BHRC is the Director for China.

9 The Director for India replaced the Director for South Africa in November 2020.

Committees comprised of the Management

Credit and Investment Committee (CIC)

The CIC was established to assist the BoD in fulfilling its responsibilities regarding the credit and investment activities of the Bank and to make appropriate project recommendations to the BoD. It comprises the President and the four Vice Presidents and meets monthly, or as needed. In 2020, the CIC held six meetings. The Chairperson of the CIC is the Bank's President. The CIC has satisfied its responsibilities in compliance with its terms of reference in 2020.

Finance Committee (FC)

The purpose of the FC is to provide oversight responsibility on financial and risk-related matters pertaining to operations and treasury. The FC is also 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. It comprises the Bank's President and the four Vice Presidents and meets monthly, or as needed. In 2020, the FC held four meetings. The Chairperson of the FC is the Bank's President. The FC has satisfied its responsibilities in compliance with its terms of reference in 2020.

Management and New Organisational Structure

The President and each Vice President serve for a five-year term, non-renewable, except for the first term of the first Vice Presidents, who may exercise a six-year mandate.

There is at least one Vice President from each founding member except the country represented by the President. Vice Presidents exercise such authority and perform such functions in the administration of the Bank as determined by the BoD. There are four Vice Presidencies: Operations, Finance, Strategy and Risk and Administration.

On December 15, 2020, the BoD approved a new organisational structure for the NDB (see Annexe). The new structure will allow the Bank to better deliver on its mandate taking into account the evolving challenges and in tune with the industry's best practices. It clarifies responsibilities, promotes synergies and prepares the organisation for: delivering more complex and sophisticated operations; enhancing the NDB's external profile; strengthening the Bank's governance; transforming the NDB into a talent-intensive institution.

The new organisational structure will be implemented in a phased manner in the course of 2021.

Important new features are, among others: the creation of a new Private Sector and Non-Sovereign Guaranteed Transactions Department under the Operations' Vice Presidency; the creation of an ESG Department under the Strategy and Risk's Vice Presidency; the creation of a Partnerships Division and a Financial Institutions and Markets Division; the creation of a new Internal Audit Department, uplifting the existing Internal Audit Division; and the creation of a Talent Management Division.

Management transition

On May 27, 2020, during a Special Meeting of the Board of Governors, Mr. Marcos Troyjo was elected to succeed Mr. K.V. Kamath as President of the Bank, for a five-year mandate beginning on 7 July 2020. The BoG also appointed Mr. Anil Kishora as Vice President for Strategy and Risk. The Bank has initiated its first leadership-change cycle in a smooth and timely manner, to be concluded during 2021 with the appointment of three new Vice Presidents.

The new structure will allow the Bank to better deliver on its mandate taking into account the evolving challenges and in tune with the industry's best

Read more

About NDB
To learn more about NDB please scan the QR code

1

President from one of the founding member countries

4

Vice Presidencies (Operations, Finance, Strategy and Risk and Administration), each representing the remaining founding member countries

Thank you

Acknowledgement to former President Mr. K.V. Kamath

NDB would like to express its appreciation for the significant contribution made to the Bank by its first President Mr. K.V. Kamath, who was a Board member and led NDB's Management team since its establishment on July 7, 2015 until July 6, 2020.

During Mr. Kamath's mandate, NDB was built from the original blueprint agreed by its founding members into a full-fledged MDB of global standing. Under his leadership, a solid foundation was laid for NDB to continue to expand its impact in emerging markets and developing countries through innovative projects, diversified instruments and risk-based operations.

2020 in review and the years ahead

In 2020, NDB was the first MDB to respond to its members in combating the COVID-19 pandemic and it was fully operational throughout the entire financial year.

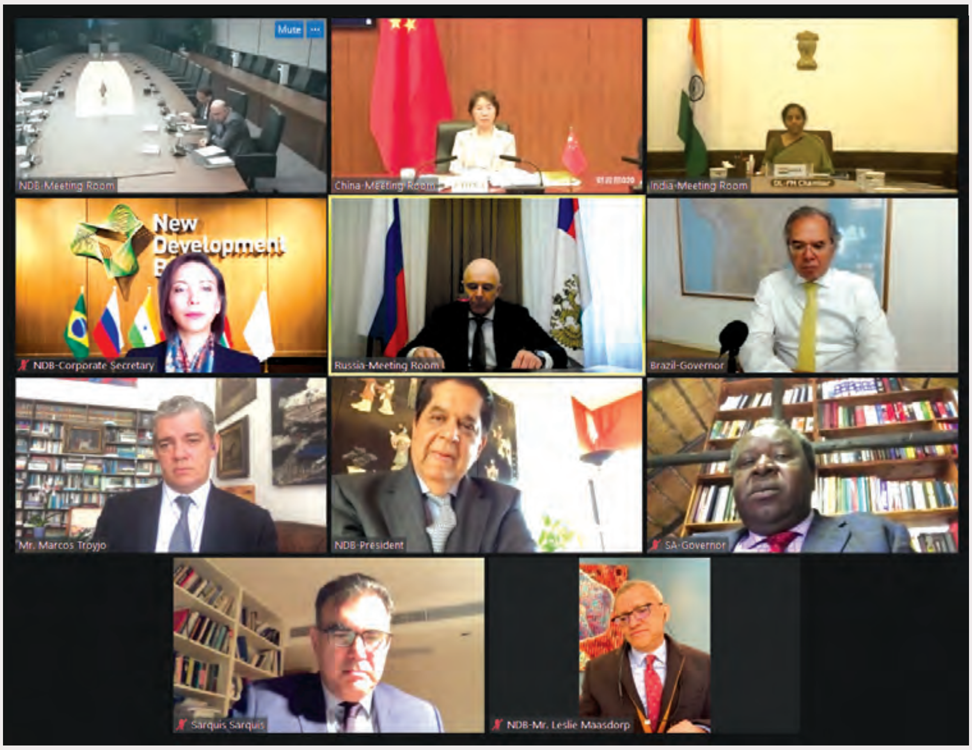
The Bank approved 19 new projects with a total value of USD 10.3 billion, including substantial COVID-response programmes. The Bank's portfolio at end-2020 reached USD 24.4 billion spread across 67 projects[10].

In its Fifth Annual Meeting, held in virtual format on 20 April 2020, NDB's BoG issued a Statement on Response to the COVID-19 outbreak. Governors welcomed the Bank's target to provide up to USD 10 billion in crisis-related assistance through emergency assistance programmes, including support for member countries' economic recovery.

In responding to global financial volatility in 2020, the Bank maintained considerable liquidity throughout the year. To support its funding needs, the Bank tapped for the first time into international capital markets in US dollars. It also issued the first-ever RMB-denominated COVID-19 Combating Bond in the Chinese local market. By end-2020, total accumulated bond issues reached USD 3.6 billion and RMB 13 billion. In 2020, the Bank started its LIBOR transition project by setting up working groups and committees to ensure efficient coordination for a smooth transition throughout 2021.

10 Portfolio differs from the sum of yearly approvals because it is net of cancellations and full repayments and also incorporates exchange-rate effects (See footnote 1).

NDB's Fifth Annual Meeting 2020



NDB's Fifth Annual Meeting was held virtually on April 20, 2020.

Read more
For more information about the Virtual Annual Meeting of NDB's Board of Governors, please scan the QR code

New headquarters

With the strong commitment and support of Shanghai Municipal People's Government, great progress has been made in the construction of NDB's Headquarters Building over the past year in spite of COVID-19. In December 2020, the construction was completed with commencement of the commissioning and testing of mechanical and engineering systems for the ultimate delivery of the building to NDB in the second half of 2021.

The building adopts advanced, green energy technologies, which include

- solar photovoltaic panels,
- rainwater harvest system,
- green drip irrigation system,
- automatic sun tracking system, and
- automatic wind extraction system, among others.

NDB's Headquarters Building achieved high recognitions for the project design and quality, receiving China's three-star green and healthy building ratings in 2020.

Putian Pinghai Bay Offshore Wind Power Project, China

The years ahead: A new cycle

As the Bank concludes the transition to a new management cycle, special efforts in the next five years will be dedicated to:

Elevated profile

Raising the profile of the Bank in the international development community, voicing the aspirations and ambitions of the BRICS and other EMDCs

Gradual expansion

Expanding its membership, in a gradual and responsible way

More offerings

Expanding the Bank's ability to employ more sophisticated instruments and structures, such as project finance, guarantees and syndicated loans, so as to crowd-in funding from other public and private investors

Innovation

Placing innovation at the core of NDB's culture to ensure that the Bank will expand the share of groundbreaking projects in its portfolio, including in areas such as smart infrastructure and distance education

Local currency

Continuing to enlarge the provision of loans denominated in local currencies

Quality of projects

Enhancing the quality of the Bank's projects, working with clients to add value in the project preparation stage and to promote the adoption of innovative solutions

Innovative financial instruments

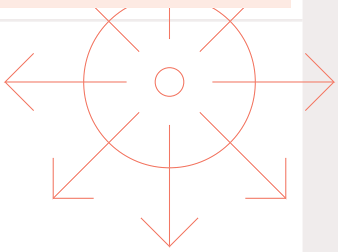
Further diversifying its treasury investment portfolio as well as funding sources in order to reduce related risks and increase returns in the global environment of low interest rates and potential market turbulence due to the COVID-19 pandemic crisis

Organisational structure

Implementing the new organisational structure, supporting the Bank's efforts to expand its role in operations with the private sector and mainstreaming ESG considerations in all projects

Talent

Attracting, nurturing, and retaining talents so as to continue building NDB into a talent-intensive institution



Diversified portfolio

Continuing to strengthen the governance and transparency mechanisms of the Bank, including through streamlining financial planning processes, implementing systems for enhanced access to information, among others

NDB was the first multilateral institution to approve a COVID-19 loan facility and to issue a COVID-19 related bond in China. The early work in answering a request from one of its members by leveraging the lean structure and fast-track process has proved to be crucial in shaping the Bank's responsiveness toward all member countries.

Chapter 2

Response to COVID-19

Helping our communities through the pandemic

In the challenging year of 2020, the COVID-19 pandemic caused hardship and suffering for billions of people around the globe. NDB has demonstrated a swift response to member countries in fighting the pandemic and the ensuing economic crisis.

NDB has committed to providing up to USD 10 billion for the crisis-related Emergency Assistance Facility, including support for member countries' economic recovery, in a fast-track process. The facility comprises up to USD 5 billion for member countries' most urgent needs, including health-related current expenditures and social safety nets, and up to a further USD 5 billion to support economic recovery. The Policy on Fast-Track Emergency Response to COVID-19 was approved in June 2020, entailing flexibilities commensurate with the urgency, the size of loans and their programme-related nature.

Indicative of NDB's responsiveness in the face of the global COVID-19 pandemic, the ARC, BHRC, the BoD and BoG were able to continue their normal work programme by meeting in virtual format. Due to the agile and lean nature of the Bank's structure, it was able to quickly respond to its members' urgent needs in the face of the global pandemic crisis by seeking swift, but well-considered, BoD approvals.

NDB has committed to providing up to USD 10 billion for the crisis-related Emergency Assistance Facility, including support for member countries' economic recovery, in a fast-track process.

RMB 7 bn

Emergency loan to China and first-ever RMB denominated Coronavirus Combating Bond

USD 5 bn

Set-aside for member countries' health-related current expenditures and social safety nets

Brazil

Emergency Assistance Programme in Combating COVID-19

This programme aimed to support

(i) the maintenance of minimum income levels for informal, self-employed and unemployed workers with basic emergency aid; and

(ii) families under the cash transfer Bolsa Família Programme that were also eligible for basic emergency aid.

The programme contributed to women's economic empowerment and gender equality by providing a double amount of aid to families headed by women. It is estimated that about 9.2 million families headed by women received basic emergency aid.

The loan helped the Brazilian Federal Government (GoB) to ensure that strong fiscal support was in place to combat the COVID-19 outbreak and that priority investment projects continued to be implemented, thereby also contributing to the economic recovery of the country.

USD 1 bn

Approved on July 20, 2020

Emergency Assistance Programme for Economic Recovery

This programme aimed to support

(i) the GoB in its efforts to maintain jobs and income and

(ii) economic recovery through an enhanced credit access programme for small- and medium-sized companies (SMEs).

It improved SMEs' access to credit by providing guarantees at zero premium charges, assisting these businesses in overcoming temporary liquidity problems, ensuring the continuity of operations, and strengthening financial sustainability, by contributing to sustain employment rates and complementing workers' incomes.

The total cost of the programme is estimated at USD 3.5 billion. NDB will finance USD 1.0 billion or 29% of the total cost. The balance of the cost will be financed by the GoB (USD 2.3 billion) and the Inter-American Development Bank (a loan of USD 200 million).

USD 1 bn

Approved December 7, 2020

China

Emergency Assistance Programme in Combating COVID-19

The loan of RMB 7 billion for emergency assistance to China was NDB's first emergency assistance loan to its member countries. It was also the first emergency assistance from a multilateral development bank to support China in combating COVID-19. This programme aimed to help the Government of China in combating the immediate health impacts of COVID-19. It supported Hubei, Guangdong and Henan provinces in financing their most urgent needs for fighting the spread of COVID-19, and reducing the adverse impacts of the outbreak on their local economies. The loan was fully disbursed in April 2020 and was fully utilised by the end of 2020.

RMB 7 bn

Approved March 19, 2020

Emergency programme loans to member countries

By the end of 2020, making use of the above-described policy framework and fast-track approach, NDB's approved emergency loans to member countries totalled USD 6 billion. The NDB COVID-19 response financing is aligned with Sustainable Development Goals (SDGs).

Two emergency assistance loans are primarily aligned with SDG 1 on Poverty Alleviation by safeguarding vulnerable populations from living in poverty due to the effects of the COVID-19 pandemic, while the other two mainly contribute to SDG 3 on Good Health and Well-being by helping to contain onward transmission of COVID-19 and manage the disease. The two economic recovery loans are primarily aligned with SDG 8 on Decent Work and Economic Growth by supporting jobs, income and economic recovery. Loan projects under the emergency programme featured fast-track preparation and disbursement.

India

Emergency Assistance Programme in Combating COVID-19

This programme aimed to support the Government of India (GoI) in its efforts to contain the spread of the virus and reduce human, social and economic losses. The programme focused on

(i) preventing, detecting and responding to the threat posed by COVID-19;

(ii) funding critical healthcare expenditure that would enhance healthcare capacity in India and strengthen national health systems' preparedness; and

(iii) providing immediate economic assistance to the vulnerable and affected groups, thus facilitating economic and social recovery.

The loan provided critical healthcare resources, urgent goods, services and works that were procured and deployed by the GoI, as well as financial support to the GoI in strengthening the social safety net to combat the economic and social impact of COVID-19.

USD 1 bn

Approved April 30, 2020

Emergency Assistance Programme for Economic Recovery

This programme aimed to support India's economic recovery following the impact of the COVID-19 pandemic and national lockdowns, through natural resources management works. These aim at facilitating economic activity and rural employment generation and stimulate rural demand, thereby spurring economic growth in a sustainable manner.

The programme will result in works leading to the creation of natural resource management assets and generation of employment opportunities for rural poor, especially migrant workers who have returned from urban areas and have lost their livelihoods due to the COVID-19 pandemic. The programme will enhance livelihood for rural households through increased income, increased consumption and diversified income sources. Agricultural productivity will be improved through natural resource management works that promote water conservation, water harvesting and watershed management.

USD 1 bn

Approved December 11, 2020

South Africa

Emergency Assistance Programme in Combating COVID-19

The loan assisted the Government of the Republic of South Africa (GoSA) in rolling out its healthcare response to COVID-19 and in providing a social safety net to alleviate the economic impact of the disease containment measures on vulnerable individuals. This programme envisaged

(i) preventing, detecting and responding to the health threat posed by COVID-19, and

(ii) providing immediate economic assistance to vulnerable groups affected by measures implemented to prevent and contain the disease.

It was in quick response to the urgent request and immediate financing needs of GoSA and represents a part of a larger governmental plan to fight COVID-19.

USD 1 bn

Approved June 19, 2020

Main BoD decisions and NDB responses during 2020 on COVID-19 related projects

March
- Approved a COVID-19 emergency assistance loan of RMB 7 billion to the Government of China, as the first MDB loan to China for combating the COVID-19 pandemic

April
- Issued the Bank's first COVID-19 Combating Bond in China, in the amount of RMB 5 billion
- Established an Emergency Assistance Facility to meet the emergency needs of member countries
- Approved a COVID-19 emergency assistance loan of USD 1 billion to the Government of India

June
- Approved the Policy on Fast-track Emergency Response to COVID-19
- Issued the Bank's inaugural USD 1.5 billion COVID-19 Response Bond in the international capital markets
- Provided a COVID-19 emergency assistance loan of USD 1 billion to the Government of South Africa

July
- Approved a COVID-19 emergency assistance loan of USD 1 billion to the Government of Brazil

Sept
- Issued USD 2 billion bond to further support COVID-19 emergency response

Dec
- Approved COVID-19 economic recovery loans to Brazil and India in the amount of USD 1 billion each

NDB office safety in the time of COVID-19

In 2020, in view of the global spread of the COVID-19 pandemic, for the well-being of all staff members, the Bank took action to prevent the possible spread of the virus in NDB's Headquarters and regional offices. At the earliest opportunity the measures taken included adopting home working and utilising cloud-based work solutions.

Taking into consideration the stabilising trends of the outbreak in Shanghai and the importance of continuity of the Bank's operations, NDB's Headquarters office in Shanghai ('HQ') resumed normal operations from March 16, 2020.

With the stricter preventive measures implemented against the COVID-19, the Bank has provided a safe and healthy workplace for all staff members, visitors and service providers.

In pursuing its mandate, NDB taps into a unique pool of human and technical resources. Learning from the experience of its member countries, which constitute 42% of the world's population, the Bank can share their lessons and contribute to the global development community. New members and a talent-intensive institution are integral parts of providing high-quality development finance by leading development networks and advancing international dialogue and cooperation.

Chapter 3

Stepping up dialogue and cooperation on development

Highlights from the BRICS and international cooperation

“We want to position the NDB as a premier development bank for emerging economies”

Mr. Marcos Troyjo
President

Russia, 2020

2020 BRICS Summit and related meetings

On November 17, 2020, during the 12th BRICS Summit organised by the Russian Chairmanship, NDB's President Marcos Troyjo reported to the BRICS leaders on the Bank's achievements and outlined five priorities for the next five-year cycle, namely:

(i) to position NDB as a premier development bank for emerging economies;

(ii) to play a leading role in the conversation on what development policy means in the 21st century;

(iii) to make progress in membership expansion in a gradual and responsible way;

(iv) to increase the complexity and outreach of our operations; and

(v) to make NDB a talent-intensive institution and strengthen the Bank's role as a platform for international cooperation.

On November 9, 2020, the NDB President participated in the Finance Ministers and Central Bank Governors Virtual Meeting held under Russian Chairmanship. Discussions included the outcomes of the G20 Saudi Presidency in 2020, a joint digital platform to encourage infrastructure investment and the expansion of NDB's membership.

As in previous years, in 2020, the President of NDB participated in the BRICS Interbank Cooperation Mechanism and the New Development Bank Financial Forum, held on November 16, which included the participation of CEOs of national development banks of BRICS countries. NDB's President also took part in the Plenary Session of the BRICS Business Forum, organised by the BRICS Business Council. Both sessions offered an opportunity for interactions with partners of the Bank.

Moscow Declaration

In the 12th BRICS Summit, the BRICS leaders adopted the Moscow Declaration, under the theme ‘BRICS Partnership for Global Stability, Shared Security and Innovative Growth’. The declaration highlights understandings and achievements of the BRICS strategic partnership in the three pillars of policy and security; economy and finance; and culture and people-to-people exchanges.

Under ‘Economy and Finance, Intergovernmental Cooperation’, the BRICS leaders acknowledged the initiative of exploring and sharing relevant and already existing national data on infrastructure and investment projects into a common Data Room on a voluntary basis, and noted NDB's possible engagement in the initiative. They voiced their support for NDB's timely measures in helping member countries combat COVID-19 and commended NDB's remarkable achievements made in the past five years. They expressed appreciation for the leadership of former President K.V. Kamath and welcomed President Marcos Troyjo. Leaders also welcomed the opening of the NDB Eurasian Regional Centre in Moscow and the future opening of an NDB regional office in India in 2021. They also expressed their support for NDB's membership expansion based on relevant decisions by NDB's Board of Governors.

BRICS RUSSIA | 2020

See more
Watch President Marcos Troyjo's address to the BRICS leaders

The BRICS economies in 2020[11]

This section starts with a description of the global context for the BRICS economies in 2020 and global trends in infrastructure investment, followed by a brief account of the evolution of economic activity in individual BRICS economies. It also highlights some policy developments with potential impact on future infrastructure and long-term investment in each of them.

Global context

The COVID-19 outbreak had a severe impact on the global economy in 2020. In addition to the pressure on national health systems, social safety nets and the fiscal stance, domestic cross-border restrictions on the mobility of goods and personnel interrupted both the supply and demand of products and services, leading to unemployment, bankruptcies and severe impact on people's livelihood. In April 2021, the IMF expected global GDP to contract by 3.3% in 2020 compared with 2019, with EMDCs declining by 2.2% and Advanced Economies (AEs) contracting by 4.7%. The IMF expected the global trade volume in 2020 to decline by 8.9% and UNCTAD projected a fall of 42%[12] in global Foreign Direct Investment (FDI).

Countries around the globe responded with rapid and massive stimuli amounting to 13.5% of global GDP, which supported a gradual recovery in economic activity in the second half of 2020. The GDP growth of most major economies turned positive in Q3 2020; global trade and investment into emerging economies improved; and major financial market indices and some commodity prices surpassed the level before the pandemic. However, there remain significant uncertainties regarding the total containment of the pandemic and future economic development still faces severe challenges, such as divergence of financial markets and the real economy, the fragility of global supply chains, the infrastructure investment gap against the backdrop of elevated debt levels, and the rising inequality across income groups.

BRICS GDP in 2020 is expected to contract by 0.9%, lower than the average decline of EMDCs (2.2%) and AEs (4.7%).

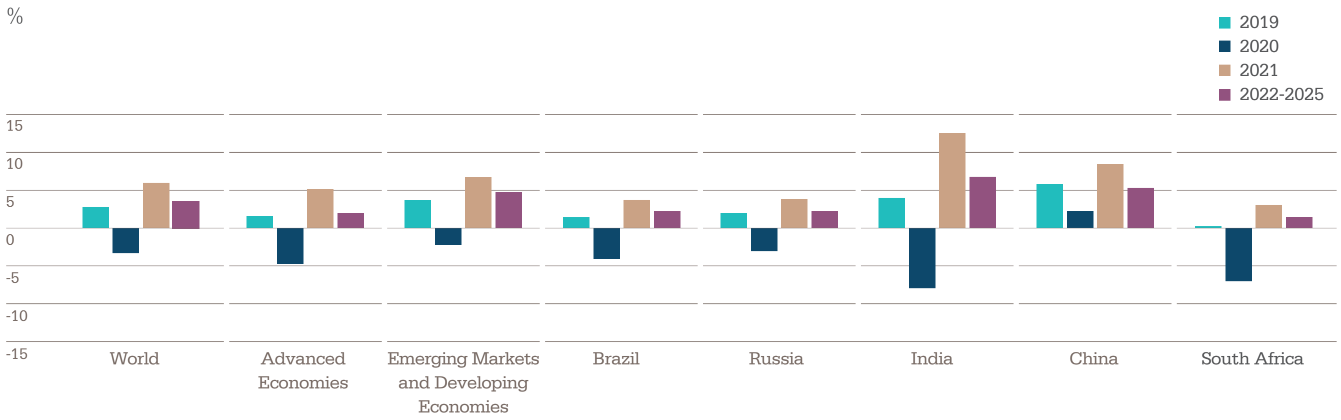
BRICS economies made great efforts battling against the pandemic and the resulted socio-economic impact by providing policy stimulus. On the basis of strong fiscal and monetary support, economic growth started to recover in Q3 for all BRICS, except China, which started rebounding in Q2. The IMF projects that BRICS economies will recover steadily in 2021 and maintain growth in the coming five years. Calculations predict that the BRICS economies would constitute a larger share of the global GDP in PPP than G7 countries from 2021.[14]

As a group of middle-income economies aiming to achieve sustainable development, BRICS countries continued making strategic development plans and promoting reforms amid the economic disruptions of 2020. Brazil continued its structural reforms, such as the approval of the New Sanitation Framework, and launched a Federal Development Strategy; Russia issued National Goals and Strategic Objectives to outline key development goals through to 2024; India introduced additional flexibilities to the labour market and launched a national programme to enhance infrastructure project management and policy framework; China promised to make its economy more environmental-friendly and to attain carbon neutrality by 2060, and pledged to invest in new infrastructure; South Africa proposed an Economic Reconstruction and Recovery Plan to improve the country's infrastructure and encourage private capital participation. These policies, if properly implemented, would boost BRICS' future development and the improvement of their people's livelihood.

Meanwhile, BRICS countries continue to be an important force of infrastructure investment. Estimates suggest that the world's total annual infrastructure investment is expected to reach USD 3.3 trillion in 2030 (an average growth of 1.9% from 2020 to 2030) and BRICS' share of the world's infrastructure spending would steadily increase in the coming decade, reaching 42% in 2030. This not only leads to ample business opportunities for NDB and other investors, but also brings bright prospects for sustainable development of BRICS economies.

11 Unless noted otherwise, data in this section are obtained from the World Economic Outlook, April 2021, International Monetary Fund (IMF). Indicators herein included reproduce authoritative statistics from different sources, as indicated, and the discussion content has no predictive intent or is meant to substitute for each member countries' official economic and financial agencies' documents.
12 FDI estimates are obtained from the UNCTAD Global Investment Trend Monitor, No. 38, 24 January 2021.
14 Data obtained from the World Economic Outlook, April 2021, International Monetary Fund (IMF).

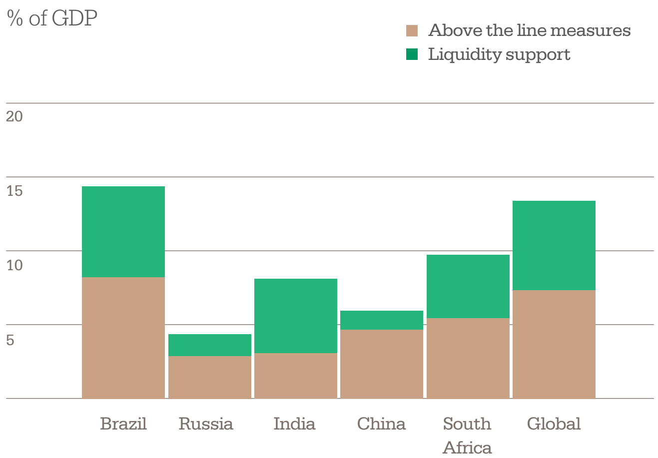
Real GDP growth



Source: World Economic Outlook, April 2021, International Monetary Fund, and NDB's staff calculations.

Note: For India, data and forecasts are presented on a fiscal year basis, with FY2020/2021 starting in April 2020. Brazil 2020 growth data is obtained from IBGE. South Africa 2020 growth data is obtained from the South African Reserve Bank.

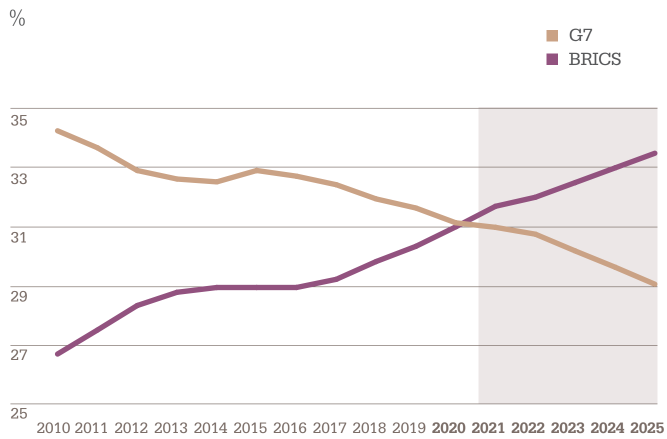
Fiscal measures in response to the COVID-19 pandemic



Source: Database of Country Fiscal Measures in Response to the COVID-19 Pandemic, International Monetary Fund (IMF). Data until 31 December 2020.

Note: 'Above the line measures' includes additional spending, foregone revenues, accelerated spending, and deferred revenues of the government; 'liquidity support' consists of equity injections, loans, asset purchase or debt assumptions, guarantees, and quasi fiscal operations.

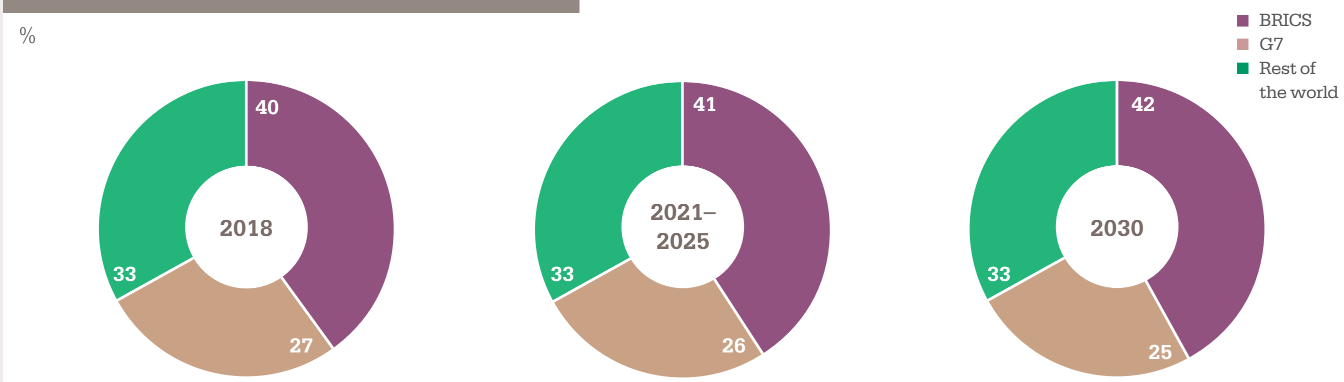
Share of world GDP in purchasing power parity: BRICS and G7



Source: World Economic Outlook, April 2021, International Monetary Fund.

Note: The shaded area represents projections.

Shares of global investments in infrastructure



Source: Global Infrastructure Hub; NDB's staff calculations.

Brazil

Brazil's GDP growth fell to -4.1% in 2020 from an average of 1.3% in 2017-2019, a lower decline than initially predicted[15]. The reduction is mainly attributable to private consumption, which accounts for more than 60% of Brazilian GDP, while investment constituted another downside factor. Net exports helped mitigate negative GDP growth, notably boosted by agribusiness exports.

To lessen the economic impact of COVID-19, the Brazilian Government announced a series of fiscal and monetary stimulus policies. The fiscal measures amounted to about 14.5%[16] of GDP, focusing on health spending expansion, temporary income support to informal and low-income workers, and credit-line guarantees to Small- and Medium-sized Enterprises (SMEs). The Central Bank of Brazil cut its policy rate by 225 basis points to an historical low of 2.0%[17] and increased liquidity in the financial system by adjusting reserve, collateral and capital requirements. These measures safeguarded the economy from further recessions. High-frequency indicators, such as the Economic Activity Index, have rebounded steadily since June. By Q4 2020, Brazil's GDP growth minimized its decline to -1.1 % year-on-year (yoy), from -3.9% in Q3[18]. In March 2021, the Central Bank of Brazil expected GDP to grow at 3.6% in 2021. The IMF projects Brazilian GDP growth of 3.7% in 2021 and 2.2% pa over 2022-25.

15 Data obtained from IBGE, Government of Brazil.
16 Database of Country Fiscal Measures in Response to the COVID-19 Pandemic, International Monetary Fund (IMF).
17 Data obtained from the Central Bank of Brazil. On March 17, 2021 the Central Bank of Brazil announced a 75 bps increase on its policy rate.
18 Data obtained from IBGE, Government of Brazil.

Infrastructure and other structural policies

The Brazilian Government continued its structural reforms in 2020 to facilitate sustainable economic development in the long horizon.

For instance, the Brazilian Bankruptcy Law was amended and new provisions address cross-border insolvency issues and accelerate the process of bankruptcy. The New Sanitation Framework introduced competition into the provision of basic sanitation services, such as water supply and sewage collection and treatment, by ensuring that all service suppliers, including state-owned enterprises, would go through the bidding process in future contracts, among other improvements. These reforms aim to help bring about universal access to sanitation services in Brazil by 2033 by attracting an estimated USD 134 billion of private investment.

In 2020, the Brazilian Federal Development Strategy for the period 2020 to 2031, the 'EFD 2020-2031,' was established, updating the previous national strategy to take account of COVID-19's social and fiscal consequences. The EFD 2020-2031 main directive is 'to increase the income and the quality of life of the Brazilian population, while reducing social and regional inequalities.' During this period, Brazil aims to move up from the 'high' Human Development Index (HDI) category to 'very high'. The EFD will be implemented along Five Axes (Economic, Institutional, Infrastructure, Environmental and Social) and its scenarios incorporate the 2030 Agenda and the Paris Agreement's commitments.

3.7%

IMF projected GDP growth in Brazil in 2021

Russia

Russia's economy started off the year by growing 1.4% yoy in 2020 Q1, but in Q2 its real GDP contracted by 7.8% yoy. The mining, manufacturing, trade, transportation, and services sectors all experienced large declines, while the agriculture sector maintained positive growth in the second quarter.

The Russian authorities took active measures to mitigate the impact of the COVID-19 outbreak on the economy. The Central Bank of Russia cut the key policy rate to 4.25%, its lowest level since 1992. It also temporarily relaxed banking regulations and introduced measures to support lending to SMEs. The Russian government implemented a set of fiscal policies to counteract the economic impact of COVID-19. These included increasing unemployment benefits, stabilising interest payments on SME loans, and deferring tax payments and reducing social contributions for firms in the affected sectors. Supported by these stimulus measures, Russia's GDP growth decline decelerated to -3.5% yoy in 2020 Q3, ending the year with -3.1% yoy in 2020. In February 2021, the Bank of Russia forecast Russian GDP to grow in 2021 in the range of 3.0-4.0%. The IMF projects Russian annual GDP growth of 3.8% in 2021 and 2.3% pa over 2022-25.

3.8%

IMF projected GDP growth in Russia in 2021

Infrastructure and other structural policies

In 2020, the Russian Government formulated a series of policies to support economic recovery and promote long-term economic growth.

In September 2020, the Government of the Russian Federation (GoRF) approved the National Plan for Recovery of Employment, Income of the Population, Economic Growth and Long-Term Structural Changes in the Economy, the 'National Plan for Recovery'. The plan focuses on the strategic development of the country against the backdrop of the pandemic. With a total estimated cost of about RUB 6.4 trillion (USD 86 billion), this comprehensive plan aims to

- restore employment and purchasing power,
- support individuals and SMEs,
- launch a new investment cycle,
- improve business environment,
- accelerate technological development of the economy, and
- boost exports.

All actions envisaged by the National Plan for Recovery are expected to be completed by 2021 under a three-stage approach:

i) Adaptation stage: until the end of September 2020. GoRF concentrated its efforts on stabilisation of real income growth and containment of recessionary trends in the economy;

ii) Recovery stage: October 2020-June 2021. Economic recovery is expected to begin with GDP and real incomes showing signs of growth; and

iii) Active growth stage: July-December 2021. The economy will shift to a sustainable growth rate of not less than 3.0% yoy.

In 2020, the Russian Government formulated a series of policies to support economic recovery and promote long-term economic growth

India

India's GDP is estimated to decline 8.0% in the fiscal year ending March 2021,[19] the first contraction since 1980. The manufacturing sector faced the largest impact, followed by the service sector, while the agricultural sector maintained moderate growth.

The Indian Government rapidly responded to these challenges with fiscal and monetary policy tools. The Reserve Bank of India (RBI) cut its policy rate twice in Q2 2020 and ensured the functioning of the credit market through various quantitative measures. The Ministry of Finance implemented several stimulus packages to ensure people's basic livelihood, support employment and business, and boost aggregate demand. These measures mitigated the economic impact of the pandemic. High-frequency indicators, such as the Industrial Production Index and petroleum consumption, started to rebound in May 2020. The Indian economy gradually recovered as the new daily COVID-19 cases subsided, business reopened and external demand resumed, attaining a positive growth rate of 0.4%[21] yoy in Q4 2020. In February 2021, the RBI projected that India's GDP growth would rebound to 10.5% in FY22 (April 2021 to March 2022). The IMF projects Indian annual GDP growth would attain 12.5% in FY22 and 6.8% pa over FY23-26.

19 According to the latest estimates of the National Statistics Office (Second Advance Estimates, February 2021).
21 Expenditure-based estimation; data obtained from National Statistics Office, Government of India.

Infrastructure and other structural policies

In 2020, the Indian Government launched a series of structural reforms to facilitate sustainable economic development for the long term.

For instance, three new labour market bills passed in 2020, together with the Codes on Wages in 2019, merged 29 major labour laws at the national level. The new legislation expanded the social security net for both formal and unorganised workers while allowing additional flexibility in hiring and retrenchment for enterprises. These reforms aim to boost the efficiency of industrial sector and enhance the welfare of informal employees.

The Indian Government also continued its support for infrastructure projects. In addition to providing financial resources, the government launched in 2020 the National Programme and Project Management Policy Framework (NPMPF), emphasising the accountability, monitoring, transparency and anti-corruption in infrastructure investments. It aims to bring reforms to the way infrastructure projects are executed in India.

12.5%

IMF projected GDP growth in India in FY22 (April 2021 to March 2022)

3

New labour market bills passed in 2020 at the national level

China

The Chinese economy witnessed the sharpest quarterly drop of 6.8% yoy in Q1 2020, from a 5.8% expansion in Q4 2019. To support economic recovery, China acted early to provide policy stimulus to manufacturing, services and retail sectors, through fiscal, monetary and social insurance tools. GDP growth rebounded, leading to a 2.3% yoy growth in 2020. But economic recovery remained uneven, reflected in the relatively slower growth in private sector investment and household consumption, compared to the surge in public investment and export sector. The IMF expects China's annual GDP to grow at 8.4% in 2021 and 5.3% pa over 2022-25.

According to the IMF, USD 904 billion (6.0% of GDP) of discretionary fiscal measures have been announced since the COVID-19 outbreak.[22] Fiscal support was mainly directed towards firms, financial institutions, and public investment, whereas direct transfers to households were relatively limited. On the monetary side, the People's Bank of China employed both price and quantitative policy tools to ensure adequate liquidity and support credit expansion. Policy stimulus moderated since mid-2020 to avoid the build-up of leverage and fiscal risks.

8.4%

IMF projected GDP growth in China in 2021

USD 1.4 tm

Proposed investment on 'new infrastructure' including 5G networks and industrial internet

Infrastructure and other structural policies

In 2020, China further advanced along the path to globalisation. On December 30th, EU and China agreed in principle on the Comprehensive Agreement on Investment (CAI). China also joined the Regional Comprehensive Economic Partnership (RCEP). In addition, China is actively considering joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), according to the annual Central Economic Work Conference, which laid out economic plans for 2021.

With respect to long-term growth, China outlined its 14th Five Year Plan (2021-25) and longer-term targets (2021-35), which pledge the country will reach the high income threshold by 2025, and increase its per capita GDP to medium level of developed countries by 2035. The Five-Year Plan emphasises sustaining high-quality growth through innovation and reform. In September 2020, China announced its commitment to attaining carbon neutrality by 2060. In 2020, infrastructure investment provided critical counter-cyclical support to China's economic recovery. China continues to promote investment in new infrastructure as outlined in the 2020 National People's Congress. USD 1.4 trillion investment is proposed on new infrastructure, which includes seven key areas: 5G networks, industrial internet, inter-city transportation and rail system, data centres, artificial intelligence, ultra-high voltage power transmission and new-energy vehicle charging stations.

22 Database of Country Fiscal Measures in Response to the COVID-19 Pandemic, International Monetary Fund (IMF).

South Africa

The South African real GDP shrank by 7.0% yoy in 2020, recovering from a much larger drop in Q2 2020. The hit was broad-based in Q2: mining, manufacturing, construction, transport and communication, and trade sectors all saw large contractions.

The Government of South Africa (GoSA) responded to the COVID-19 shock with sizeable fiscal and monetary mitigation measures. The South African Reserve Bank (SARB) has reduced the policy rate by a total of 275 bps through December 2020. The central bank also injected liquidity through various policy tools, including reducing the lending rate on the standing facility and providing temporary relief on bank capital requirements. On the fiscal side, the government launched a large fiscal stimulus to provide social grants and unemployment benefits to households. The government also established a loan guarantee scheme and deferred tax liabilities for affected companies. South Africa's GDP growth eased to -4.1% yoy in 2020 Q4. In March 2021, SARB projected a GDP growth of 3.8% in 2021. The IMF projected GDP would attain annual growth of 3.1% in 2021 and 1.5% pa over 2022-25.

3.1%

IMF projected GDP growth in South Africa in 2021

ZAR 100 bn

Fund to improve the country's infrastructure and encourage private capital participation in infrastructure projects

Infrastructure and other structural policies

To address structural challenges facing the economy, the South African Government proposed an ambitious Economic Reconstruction and Recovery Plan in October 2020. It established a ZAR 100 billion infrastructure fund (USD 6.8 billion at end-2020 exchange rates) to improve the country's infrastructure and encourage private capital participation in infrastructure projects.

The GoSA also aimed to increase electricity generation capacity and achieve sufficient, secure and reliable energy supply within two years. Furthermore, the government earmarked ZAR 100 billion over the next three years to generate new jobs and help labour market recovery, which is expected to create 875,000 jobs in the 2020/21 financial year. The government will promote industrialisation through localisation and export promotion. Moreover, the government will pursue policy and regulatory reforms to reduce the cost of doing business and foster more inclusive growth. According to government projections, the implementation of this plan will increase the average annual GDP growth rate to 3% over the next ten years.

The South African Government proposed an ambitious Economic Reconstruction and Recovery Plan in October 2020

BRICS countries continue to be an important force of infrastructure investment

Rajasthan Water Sector Restructuring Project, India

NDB as a member of the development community

As one of the newest members of the development community, and in implementing the General Strategy: 2017-2021, the Bank has promoted partnerships and dialogue with international development organisations, national development banks, commercial banks, multilateral, regional and sub-regional institutions, bilateral development organisations, national development agencies and non-governmental organisations, among others.

By entering into Memoranda of Understanding with different partners and through a more active engagement in global, regional and bilateral forums, NDB would like to leverage its unique characteristics to contribute and play a leading role in shaping development finance in the 21st century. By gradually expanding its outreach and development network, including universities and think tanks, the Bank will continue to promote its role as a platform for international cooperation.

The unprecedented crisis of the COVID-19 pandemic called for the global development community to act quickly and jointly to respond to the common challenges facing the world's population. NDB's collaborative activities during the year reflected the global emergency context and the Bank's invigorated commitment to address the needs of its member countries in a time of crisis. In 2020, the Bank increased the joint financing of projects and engagement with multilateral initiatives, which are supported by NDB's policies.

The Bank approved five projects in 2020 that entail parallel financing with partner MDBs, amounting to USD 4.5 billion. Of this financing, USD 4 billion was approved under the Bank's COVID-19 emergency financing facility.

The Bank also approved close to USD 1.7 billion for five projects that entail on-lending through MDBs as well as national and regional development banks.

In cumulative terms, at the end of 2020 the amount of financing provided by NDB for projects that entailed parallel financing was USD 6.2 billion. On-lending operations stood at more than USD 2.8 billion. The Bank also provided USD 100 million for a single equity investment that involves co-investment with partner MDBs.

In December 2020, NDB was one of the 11 MDBs to launch, together with the International Monetary Fund (IMF), the first-ever joint report on financing the Sustainable Development Goals (SDGs).

5

Projects entailing parallel financing with partner MDBs approved in 2020 with a total amount of USD 4.5 billion

Read more

The Report on Financing the SDGs
The contributions of MDBs, can be found here.

NDB engaged in MDB-led platforms throughout the year. In June 2020, NDB entered into a Memorandum of Understanding related to the establishment of the Multilateral Cooperation Center for Development Finance (MCDF) and became a member of the Coordination Committee along with nine other international financial institutions. The Center will serve as a collaboration platform to foster high-quality infrastructure and connectivity investments for developing countries, through information and knowledge sharing, capacity building and project preparation activities.

NDB contributed to the flagship joint-event of MDBs held virtually in October in 2020, the Global Infrastructure Forum. The Forum was organised on a collaborative basis between MDBs and was hosted by the European Bank for Reconstruction and Development (EBRD). It brought together stakeholders from across the infrastructure community under the theme of Building a Resilient Future post COVID-19.

50%

2030 decade of action goal for a reduction in road fatalities and injuries worldwide

USD 1.7 bn

Approved in 2020 by the Bank for five projects that entail on-lending through MDBs as well as national and regional development banks

In November 2020, MDBs convened on the sidelines of the Finance in Common Summit to present their joint Paris Alignment approach. The presentation highlighted the progress by MDBs in developing implementation methods and operationalising their commitment to climate action in preparation for the 26th UN Climate Change Conference of the Parties (COP 26), to be held in November 2021.

Also in November, NDB joined nine other MDBs in signing the High-Level Joint Statement on Road Safety, which sets a firm commitment to an ambitious and integrated approach to road safety. The statement underlines the need for increased road safety action and multilateral cooperation to help countries achieve SDG 11 and the 2030 decade of action's goal of 50% reduction in road fatalities and injuries worldwide.

In December 2020, NDB was one of the 11 MDBs to launch, together with the International Monetary Fund (IMF), the first-ever joint report on financing the Sustainable Development Goals (SDGs). The report describes the actions of the MDBs in support of the SDGs, including their collective efforts to support the global response to and recovery from the COVID-19 pandemic.

Going forward, NDB will enhance its engagement with the development community by building and leading development networks with a view to improving the quality of development projects based on sound and forward-looking development policy.

NDB would like to leverage its unique characteristics to contribute and play a leading role in shaping development finance in the 21st century.

Membership expansion

NDB was established to be an institution of global scope. The Bank's membership is open to all members of the United Nations. Membership expansion will strengthen NDB's role as a global development finance institution and further contribute to the mobilisation of resources for infrastructure and sustainable development in BRICS and EMDCs. Following the initial years of designing policies, developing internal capacity and building a project portfolio, NDB reached a stage in which it is ready to welcome new members.

After the 12th BRICS Summit and the publication of the Moscow declaration in 2020, the Board of Governors aurthorised Management to start formal negotiations with a group of prospective new members. A taskforce was established to provide technical support to Management in their engagements. The negotiation phase has been proceeding gradually and in a way that is supportive of NDB's credit rating and institutional development.

New members – from a geographically balanced mix of countries, of different sizes and at different stages of development – will contribute to raising the profile of the Bank and its international standing. They will help to reduce portfolio concentration while strengthening NDB's financial position and the Bank's credit rating. Further, NDB will be able to leverage the experience of more countries in project design and implementation.

NDB's envisaged expansion is an investment in the future of global governance. New members will share a platform with major emerging economies that lead conversations on the future of development and finance. In addition, borrowing members could benefit from NDB's streamlined provision of development resources based on the use of country systems.

Talent-centred institutional building

A whole-of-institution approach to talent

NDB will strengthen its operational capacity by focusing on being a talent-intensive institution with skilled professionals.

Employees by gender

As at December 31, 2020

114

Male
2020: 114 (62%)
2019: 99 (61%)

71

Female
2020: 71 (38%)
2019: 62 (39%)

Employees by category

As at December 31, 2020

5

President and Vice-Presidents

172

Full-time staff

8

Short-term consultants and outsourced staff

In the next five years, NDB aims to raise its profile in the international development community by achieving higher standards of professionalism and maximising its development impact. NDB will strengthen its operational capacity by focusing on being a talent-intensive institution with skilled professionals. As human talent rises to be the indispensable factor of production, NDB must be ready to cope with what the future has in store.

NDB's human resources strategy seeks to ensure that the Bank attracts, nurtures and retains motivated and talented people who are committed to the Bank's mandate and strategic goals, and add value to the Bank's day-to-day work. As at the end of 2020, the Bank's human resources totalled 185 people, including 172 staff members, five management members, seven short-term consultants and one outsourced member of staff.

NDB's career opportunities continued to attract strong interest in 2020, with 24 job openings generating a total of 2,372 job applications from its member countries. The NDB's total on-boarded headcount increased by 15% in 2020 even with temporary hiring suspension for a few months due to COVID-19. NDB enhanced its recruitment process by moving towards the usage of technology-driven tools, including the adoption of a new online and virtual induction programme.

The Bank is in the process of building a team of young high-achieving individuals who do not refrain from challenging the status quo and generate new ideas and approaches. NDB conducted a round of entry-level staff recruitment in 2020. NDB's young workforce, aged 32 or under, accounted for almost 25% of the Bank's staff by the end of 2020. NDB continues to place an emphasis on gender balance, recruiting and retaining female staff members at all levels. At the end of 2020, women accounted for 38% of the Bank's headcount.

Talent is about people, ideas and collaboration. NDB and its staff are committed to playing an active role in debating the drivers defining the global economy and development. The NDB THINKLAB is an invaluable tool in equipping the talent-intensive professional of a 21st century development institution. It consists of a series of interactions with global thought leaders. The NDB THINKLAB examines cross-cutting topics related to the Bank's activities, operating context and future trends in development. It fosters knowledge and debate, strengthens the institution's sense of purpose, stimulates an open discussion environment and enhances collaboration with partners and within the Bank.

To make NDB a talent-intensive institution and enhance NDB's comparative advantage in the development finance landscape, a Talent Management Division was created in December 2020, under the Human Resources Department. An institution of multi-talented individuals will have the ability to work across different areas of the Bank and contribute to a variety of initiatives and projects together with specialised professionals. Stepping up learning and training opportunities is an important commitment within the Bank's human resources agenda.

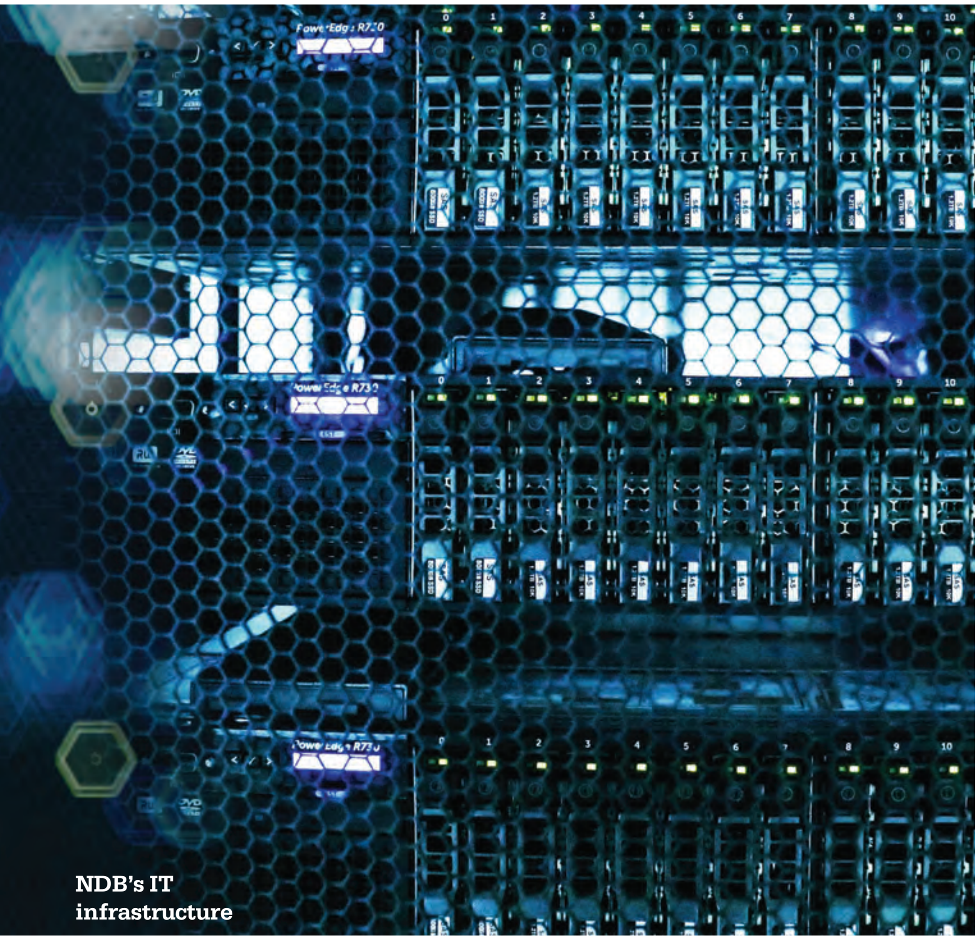
A lean institution: the role of information technology

Leveraging information technology to better function and to better serve its member countries and its clients is part of NDB's strategy and practice since day one. As a newly built institution, the Bank has been able to leapfrog into the cloud-first approach, which entails the provision of multiple IT management services via cloud solutions.

This approach allows for further adaptability as NDB moves forward. It also requires a permanent focus on risk assessment and information security capabilities. During the COVID-19 pandemic, NDB's cloud-based system has allowed NDB's staff to connect and work remotely as needed, ensuring a smooth continuity of the Bank's activities during the initial stages of the global outbreak.

In 2020, the implementation of NDB's strategy in information technology continued the permanent upgrade of its internal and external services. Some highlights were:

- Progress in the implementation of the electronic document interchange solution;
- Enhancements in the loan management solution;
- Improvements in IT security solution for the user identity, governance and access administration;
- Implementation of the privilege access management solution for increasing IT security.



NDB's IT infrastructure

During the COVID-19 pandemic, NDB's cloud-based system has allowed NDB's staff to connect and work remotely as needed, ensuring a smooth continuity of the Bank's activities.

In the period 2015-2020, NDB has established itself as a solid, dynamic and trustworthy partner in the development community. Since the adoption of its General Strategy: 2017-2021, the Bank has been evolving broadly in line with its vision and projections. Loan approvals have surpassed baseline projections by responding to critical country demands while following a robust business profile and prudent risk management. The Bank has accumulated valuable knowledge and lessons learned to effectively mobilise resources for infrastructure and sustainable development projects in its member countries. Lessons learned will also contribute to the elaboration of the new General Strategy: 2022-2026.

Chapter 4

Enhancing development impact

Madhya Pradesh Multi Village Water Supply Project, India

Strategy and development impact

Financing of Renewable Energy Projects and Associated Transmission (BNDES), Brazil

NDB's portfolio of infrastructure and sustainable development projects at the end of 2020 proved to be robust and diversified, serving as an effective instrument for the Bank to deliver on its mandate.

27%

Of the Bank's lending to South African borrowers were made in ZAR

75%

Of the Bank's cumulative approvals for projects located in China were made in RMB

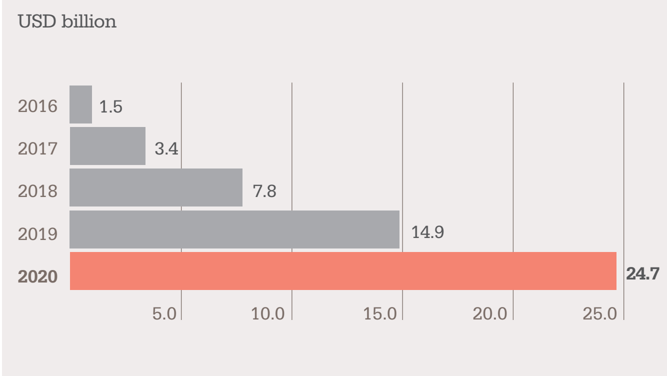
Strategy implementation and monitoring

Despite the challenging and uncertain operating environment caused by the COVID-19 pandemic, NDB made considerable progress in implementing its General Strategy: 2017-2021. Building on the solid foundation that had been laid in the previous years, the Bank is on track to achieve the vision and ambitious objectives set out in the strategy.

NDB strategy underlines the importance of the Bank's project portfolio as a development and financial asset. A growing, diversified and performing portfolio is both a visible indicator of, as well as a necessary tool for, achieving NDB goals. After five years of operation, NDB's portfolio of infrastructure and sustainable development projects at the end of 2020 proved to be robust and diversified, serving as an effective instrument for the Bank to deliver on its mandate.

By the end of 2020, the Bank's cumulative project approvals totalled USD 24.7 billion for 68 projects across its member countries[23], of which about USD 6.9 billion had been disbursed. These projects are in a set of strategically selected key areas of operation in line with global and national development priorities, including member countries' urgent needs to respond to and recover from the COVID-19 pandemic. Non-sovereign operations reached 20% of NDB's cumulative project approvals excluding COVID-19 projects, serving a broader range of clients with diverse financing needs. NDB has been delivering on its commitment to provide financing in local currencies of member countries. Notably, 75% of the Bank's cumulative approvals for projects located in China were made in RMB, while 27% of the Bank's lending to South African borrowers were made in ZAR. The Bank also started providing INR-denominated financing and proactively exploring opportunities to expand its local currency operations into Brazil and Russia. The use of borrowers' country systems has contributed positively to the preparation and implementation of projects supported by the Bank.

Evolution of NDB's cumulative project approvals



NDB's strong business profile, solid capital base, sound management and governance have enabled it to quickly establish itself as a trustworthy multilateral development finance institution. The Bank obtained and maintained high credit ratings, which allowed it to tap into both domestic and international capital markets at favourable rates and to provide development financing at competitive terms. By the end of 2020, NDB had cumulatively raised USD 3.6 billion and RMB 13 billion through bond issuances, including the issuance of green bonds and COVID-19 response bonds. To better deliver on its commitment to sustainability, the Bank has introduced a Sustainable Financing Policy Framework. This framework governs not only the issuance of green, social and sustainability bonds and other debt instruments, but also the use and management of their proceeds, ensuring that they contribute to green, inclusive and sustainable growth.

As envisioned in the strategy, NDB has been operating with a lean organisational structure and relies on cost-effective solutions that allow the Bank to fulfil its mandate in an agile and responsive manner. NDB's IT systems are fully hosted in the cloud, giving the Bank unparalleled resilience, which has been tested and proven by maintaining smooth operations during the COVID-19 pandemic. To be able to respond to its member countries' needs in a more efficient and effective manner, the Bank has established regional offices in Johannesburg, São Paulo and Moscow, and a sub-office in Brasília.

The next regional office is planned to be established in India. With the expansion of the Bank's membership, NDB will further extend its global outreach. By leveraging available technology, financial resources, human capital and partnership networks, the Bank has increasingly become an important player in the global development community.

Overall, as concluded by a mid-term review of NDB's General Strategy: 2017-2021, the Bank has evolved from a concept into a solid, dynamic and reputable MDB, broadly in line with the vision of the strategy. The General Strategy: 2017-2021 has also proven to be valid in guiding the Bank to deliver on its mandate effectively, even during challenging and uncertain times. NDB will therefore focus on the continued implementation of the strategy, while regularly monitoring and assessing the progress made using the Bank's results framework and key performance indicators. Lessons learned from the implementation of the strategy, along with information gathered on the evolving operating environment, will contribute to the formulation of a new strategy in the coming year, which will guide the Bank's evolution over the 2022-2026 period.

23 Cumulative project approvals in this section differ from total approvals and from end-2020 portfolio because they exclude cancellations but includes repayments (one project was fully repaid in 2020).

Development impact of NDB's operations

Sustainable Development Goals

NDB's portfolio contributes to achieving 12 of the 17 SDGs.

11

The Bank's financing commitments are primarily aligned with 11 out of the 17 SDGs.

19%

Of the Bank's cumulative approvals for climate finance commitments

NDB is mandated to mobilise resources for infrastructure and sustainable development, aiming ultimately to contribute to global growth and development.

A set of key areas of operation are outlined in NDB's General Strategy: 2017-2021, which provide guidance on the selection of projects within the broad spectrum of infrastructure and sustainable development. Projects financed by the Bank are therefore expected to deliver transformative impacts that contribute to member countries' efforts to achieve their development aspirations, especially those aligned with the 2030 Agenda for Sustainable Development, including the 17 SDGs, and the Paris Agreement on Climate Change.

In addition to the institution-wide results framework and project-level impact measurement, NDB has developed and tested an evidence-based method to monitor and report on the alignment of the Bank's financing with the SDGs. The mapping of NDB's project approvals shows that the Bank's financing commitments are primarily aligned with 11 out of the 17 SDGs. In addition to their respective primary SDGs, most of the projects supported by the Bank are also expected to have direct contribution to the achievement of additional SDGs through the cascading effects of their development outputs and outcomes. Taking into account both primary and additional SDGs, projects in the Bank's current portfolio are expected to contribute directly to achieving 12 out of the 17 SDGs. The Bank and the UNDP exchanged official letters in 2020 to establish a channel of communication and technical knowledge exchange to advance SDG financing. Lessons learnt will be shared with broader stakeholders to push forward SDG-aligned investments globally.

NDB also places a strategic emphasis on supporting its member countries' transition towards low-emission and climate-resilient development. Tracking and reporting of NDB's commitments to projects that contribute to climate change mitigation and adaptation have increasingly become an integral part of development impact management of the Bank's operations. Based on the jointly developed MDB tracking methodology, it is estimated that NDB's cumulative climate finance commitments amounted to USD 4.7 billion by the end of 2020, accounting for approximately 19% of the Bank's cumulative approvals.

Read more

NDB Environmental and Social Framework
To learn more about our policies and Environmental and Social Framework please scan the QR code

Sustainability and environmental, social and governance (ESG) considerations

NDB maintains a risk-based and outcome-focused approach to addressing ESG impacts. It promotes the use of country systems in the preparation and implementation of its projects.

NDB aims to ensure that all projects financed by its funds are implemented in a sustainable way and their ESG impacts are assessed, minimised and mitigated during project implementation.

The principles of sustainability and sound management are incorporated into the Bank's policies and NDB Environmental and Social Framework. NDB's projects are to be implemented in a way conducive to achieve development goals with transparency and collaboration. Besides being economically viable, environmentally sound and socially responsible, NDB-financed projects aim at improved operational performance, efficient procurement and adherence with good corporate governance practices.

NDB maintains a risk-based and outcome-focused approach to addressing ESG impacts. It promotes the use of country systems in the preparation and implementation of its projects, whenever such systems are consistent with the key requirements of the Bank's policies. In 2020, NDB completed a series of reviews of environmental, social and procurement country systems of all five member countries and engaged with countries' regulatory agencies and government agencies for consultations and dissemination of the studies' findings. NDB also conducted a series of ten information dissemination and capacity-building workshops for its clients in all member countries on managing environmental, social and procurement risks in projects financed by the Bank. These thematic workshops concentrated on the use of country systems, NDB's core policy requirements and areas that require further interventions to bridge the gaps between country systems and NDB's policy requirements.

NDB and its shareholders assign great value to enhancing the Bank's development results via ensuring sustainability of NDB-funded projects and introducing best industry practices in projects. With the growing portfolio and focus towards mainstreaming sustainability in Bank's operations, NDB's BoD approved the creation of a new ESG Department in 2021, aiming to make sustainability and ESG considerations cross-cutting themes across the various aspects of Bank's activities, including operations, treasury and strategy.

NDB's cumulative project approvals by primary SDG alignment

As at December 31, 2020

Primary SDG alignment	Number of projects	Cumulative net approvals[22] USD m	Share of total approvals %	Direct contribution to additional SDGs
1 No poverty	2	2,000	8.09	3 Good health and well-being
2 Zero hunger	1	345	1.40	6 Clean water and sanitation
3 Good health and well-being	2	2 070	8.37	11 Sustainable cities and communities
4 Quality education	2	550	2.22	8 Decent work and economic growth; 11 Sustainable cities and communities
6 Clean water and sanitation	6	1 546	6.25	3 Good health and well-being; 11 Sustainable cities and communities; 13 Climate action
7 Affordable and clean energy	14	3,496	14.13	9 Industry, innovation and infrastructure; 11 Sustainable cities and communities; 12 Responsible consumption and production; 13 Climate action
8 Decent work and economic growth	2	2,000	8.09	6 Clean water and sanitation; 9 Industry, innovation and infrastructure
9 Industry, innovation and infrastructure	24	8,301	33.56	3 Good health and well-being; 6 Clean water and sanitation; 7 Affordable and clean energy; 11 Sustainable cities and communities; 12 Responsible consumption and production; 13 Climate action
11 Sustainable cities and communities	13	3,466	14.01	6 Clean water and sanitation; 8 Decent work and economic growth; 9 Industry, innovation and infrastructure; 13 Climate action
13 Climate action	1	500	2.02	
16 Peace, justice and strong institutions	1	460	1.86	

22 Cumulative approvals in the period 2016-2020 excluding full and partial cancellations.

Impact stories

Transport infrastructure

Brazil

North region transportation infrastructure improvement project

In November 2019, NDB approved a non-sovereign loan of USD 300 million to Vale S.A., one of the most important players in the mining and logistics sector in Brazil. The facility was structured as a dual currency loan in USD and RMB, an innovation that allowed Vale to drawdown USD 10 million equivalent in RMB. The project aims to improve the company's logistics and trading capacity in its northern system by supporting a double-tracking and remodelling of the Carajás Railway and the expansion of the Ponta da Madeira Port Terminal, which will increase Vale's capacity to transport iron ore from its mines to ports and then to global markets.

As of end-2020, implementation had proceeded as scheduled and funds were ready for full disbursement. According to NDB's SDG mapping, the project will directly contribute to SDG 9.

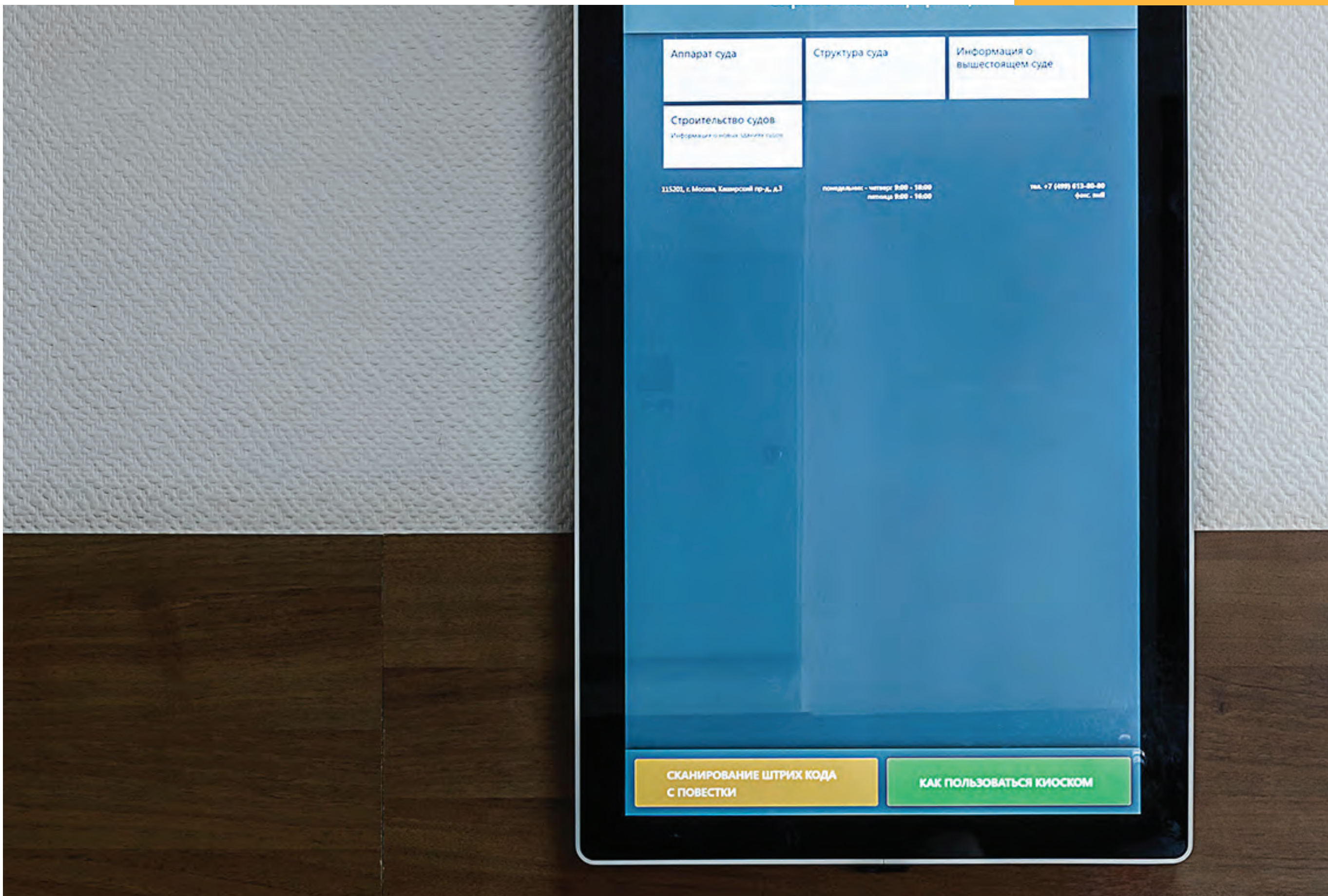
Going forward, NDB would like to continue to build a growing portfolio with the private sector in member countries, to complement the larger portfolio of sovereign loans. It also would like to continue to strengthen its links with relevant national and global players in the infrastructure sector to help draw experience from projects that entail significant ESG considerations.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

USD 300 m

Loan amount

Photograph: © Lucas Lenci/Vale



Digital technology

Russia

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Judicial system support project (JSSP)

In August 2017, NDB approved a sovereign loan of USD 460 million to Russia to support its judicial system. It was the Bank's first project in the social infrastructure area. The project aims to improve the efficiency, effectiveness and transparency of the Russian judicial system, especially through the implementation of a set of innovative technology solutions incorporating digital workplace and digital justice. Its long-term expected effects encompass the promotion of a business-enabling infrastructure in the country through faster and more reliable courts. Halfway towards its full implementation in 2023, the JSSP has completed several planned activities, with concrete development outputs.

In the Federal Bailiffs' Service (FBS), an initiative of a digital workplace is being rolled out, including videoconferencing and mobile workplace systems. An improved centralised system is under development with enhanced processes. The key activities planned toward the project's full implementation include the development of the use of artificial intelligence technology and a pilot implementation of artificial intelligence-based systems.

The JSSP is aligned with SDG 16 on promoting peaceful and inclusive societies for sustainable development, providing access to justice for all and building effective, accountable and inclusive institutions at all levels.

NDB is fully committed to continuing to work with member countries on building a portfolio of projects with impactful lessons on improving national institutions design and operations, thus contributing to sustainable development in EMDCS.

USD 460 m

Loan amount

Improving connectivity

India

Madhya Pradesh major district roads I

In 2016, the Bank approved a sovereign loan of USD 350 million to India to improve the connectivity of rural roads in major districts of the state of Madhya Pradesh, a landlocked state that is India's second largest state by area and fifth by population. Madhya Pradesh is located at the intersection of north-south and east-west corridors of the country but its road coverage is relatively limited.

As of end-2020, disbursements have amounted to two-thirds of the loan. Construction works have rebuilt or upgraded about 1,215 km of road length, benefiting 917 villages. Upon completion, the project is expected to benefit four million people.

In September 2018, NDB approved two additional projects in Madhya Pradesh totalling USD 525 million to provide support to the construction of bridges and roads. Together, the three projects aim to comprehensively address the challenges of road connectivity in the state.

The project is primarily aligned with SDG 9 on building resilient infrastructure and fostering innovation and inclusive and sustainable industrialisation. Additional contributions to SDG 3 on health and well-being have been identified.

NDB is proud to support infrastructure and sustainable development projects that bring real changes to people's lives, creating new education and health opportunities and improving local livelihoods.

USD 350 m

Loan amount

Cleaner energy

China

Putian Pinghai Bay offshore wind power

7 AFFORDABLE AND CLEAN ENERGY

13 CLIMATE ACTION

In 2016, NDB approved a loan of RMB 2 billion to China to support the Phase 2 (250 MW) of an offshore wind power plant to be set up in the Pinghai Bay, in Putian, Fujian Province. The total project cost is RMB 5 billion and entails the generation of 873 million kWh of electricity per year. By generating electricity from a renewable energy source, the project will avoid the emission of 870,000 tonnes of CO_2 annually.

By the end of 2020, the project's implementation was well under way, with 73% of disbursements made. The installation of 22 turbines was completed in October 2020 and all turbines have been producing energy. The project has a strong technological component and represents the world's first solution for a large-scale, single-pile foundation to support the wind turbines, which significantly reduces costs for the installation of turbines in rocky seabed areas. The Putian Pinghai Bay offshore wind power project is directly aligned with SDG 7 on affordable and clean energy and SDG 13 on urgent climate action. It is emblematic of the Chinese technological progress and leadership in the production of offshore wind energy, which has increasingly benefited other countries around the world.

NDB is fully committed to continuing to support projects with a clear role in combating climate change through clean energy projects. Ensuring a smooth energy transition to a low-carbon economy entails tremendous efforts from market economies and developing countries, which could immensely benefit from increased access to affordable financial and technological solutions from the global development community.

RMB 2 bn

Loan amount

Sustainable power generation

South Africa

7 AFFORDABLE AND CLEAN ENERGY

13 CLIMATE ACTION

Renewable energy integration and transmission augmentation project

In April 2016, NDB approved its first project to South Africa, a sovereign-guaranteed loan of USD 180 million to Eskom, the country's main power utility. The project aims to facilitate the provision of adequate and reliable supply of electricity across the country by expanding the transmission of renewable energy. The project also supports South Africa to achieve the emission trajectory targets of its international commitments. The project comprises six sub-projects, three of which are under implementation and should be completed in June 2021, namely Ankerlig Sterrekus 400kV transmission line, Kronos substation and Komsberg substation.

Once completed, the project will add 1,000 MVA transmission transformer capacity and 352.5 km transmission lines. It will contribute to the reduction of total energy losses and facilitate the development of 18,000 MW additional generation capacity to the grid, of which 7,000 MW will be generated from renewable energy sources such as wind, solar thermal, solar photovoltaic, biomass, biogas, landfill gas, small hydro, small projects.

The project is aligned with SDG 7 on affordable and clean energy and SDG 13 on urgent climate action. The area of clean energy received strong demand from member countries, especially in the first years of the Bank's operation. As we go forward we expect to build a strong portfolio to share experiences and lessons learned with the development community network.

USD 180 m

Loan amount

Since its inception, NDB has built a robust and diversified portfolio of projects of almost USD 25 billion. Its diversity is reflected in different types of operation, currency denominations and geographic distribution of projects. Portfolio growth has been underpinned by a consistent funding strategy focusing on diversity, adaptability to international markets and sustainability of its instruments. Regional offices also proved instrumental for portfolio growth. Going forward, the Bank will further enhance the sophistication and soundness of its operational performance and financial activities to support complex and innovative projects.

Chapter 5

Increasing sophistication and soundness

Operational performance and projects by key areas of operation

Portfolio overview

A key component of the NDB's value proposition is the commitment to provide financing in local currencies, which accounted for 20% of the end-2020 portfolio.

In 2020, despite the challenging operating environment brought by the COVID-19 pandemic, NDB has approved 19 projects totalling an amount of USD 10.3 billion. This raised cumulative approvals to 72 operations totalling USD 25.7 billion in the period 2015-2020, or 67 operations totalling USD 24.4 billion net of cancellations and repayments.

The total amount includes the six COVID-19 related approved projects. The Bank also increased its key areas of operation to nine, from seven in 2019 and expanded its impact to 12 out of 17 SDGs, from 11 in the previous year. Last year, NDB was able to significantly step up the pace of its disbursements, which increased by 153% excluding COVID-19 emergency loans and increased five-fold including them.

The complete list of NDB's approved projects can be found in the Annexe.

During the challenging and transitional year of 2020, the continuous growth and diversification of the Bank's portfolio has benefited from a dedicated team that worked to provide swift answers to urgent problems. The Bank was able to continuously deliver on its targets without interruptions due to NDB's use of cloud-based solutions. The impossibility of carrying out fact-finding and appraisal missions in most cases was compensated by more intensive interactions with regional offices and partners. Efforts on improving our capabilities to deal with more complex issues and the private sector have culminated in the restructuring of the Operations area, which will now count on three specific and separate Departments: Public Sector, Private Sector/Non-Sovereign Transactions and Project Portfolio Management.

NDB's portfolio expansion in the past years has taken place in tandem with the diversification of approvals by the types of operation, types of currency and geographic distribution.

In 2020, due to the sizeable COVID-19 emergency loans to member countries, the trend towards increasing the share of non-sovereign operations was reversed. They accounted for 7% of total approvals, including equity investments, while sovereign or sovereign-guaranteed operations accounted for 93%. The cumulative share of sovereign or sovereign-guaranteed operations approved in the period

26 Total number of approvals minus the number of full cancellations and full repayments.
27 Total amount of approvals minus the amount of full and partial cancellations and full repayments.
28 Disbursements for the period of 2015-2020 net of repayments totalled USD 6,609 million.

Approvals and disbursements

USD million	2016	2017	2018	2019	2020	2016-2020
Total approvals	1,544	1,851	4,697	7,192	**10,277**	**25,703**
Number of approved projects	8	6	17	22	**19**	**72**
Number of full cancellations			1	1	**2**	**4**
Number of full repayments					**1**	**1**
Amount of cancellations/repayments			250	69	**949**	**1,268**
End-2020 portfolio of projects (number of projects)[26]						**67**
End-2020 portfolio of projects (USD million)[27]						**24,435**
Disbursements	–	24	601	915	**5,383**	**6,931**[28]
Disbursements excluding COVID-19 emergency assistance	–	24	601	915	**2,313**	**3,861**

Approvals by type of operation

	2016		2017		2018		2019		2020		2016-2020	
USD million	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.
Sovereign loans	1,144	5	1,851	6	3,697	11	5,594	16	**9,554**	**14**	**21,934**	**54**
Non-sovereign loans	400	3	–	–	1,000	4	1,498	5	**623**	**4**	**3,569**	**16**
Equity investments	–	–	–	–	–	–	100	1	**100**	**1**	**200**	**2**

2016-2020 was 85%, while non-sovereign operations totalled 15%, including about 1% of equity investments.

In 2020, the Bank approved its second investment in an equity fund, in India, following a first transaction in 2019, in Brazil. Although sovereign or sovereign-guaranteed loans are expected to continue to represent the largest part of the portfolio, non-sovereign operations, including loans to the private sector, state-owned enterprises, national financial institutions, international organisations and equity investments will be undertaken in a gradual and increasing way. The Bank is also preparing itself to support more sophisticated and tailor-made financing structures, such as project finance, guarantees and syndicated loans.

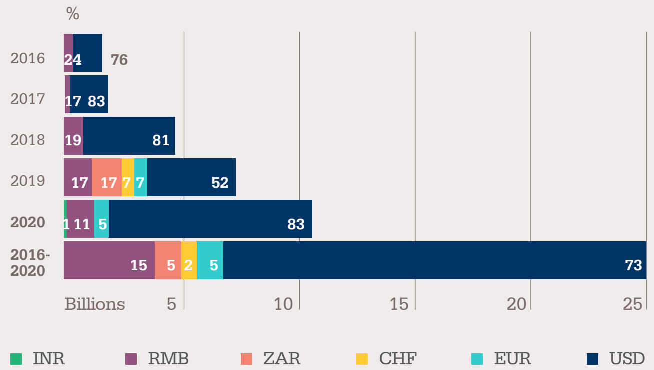
A key component of the NDB's value proposition is the commitment to provide financing in local currencies, which accounted for 20% of the end-2020 portfolio. Local currency operations allow for a significant reduction of risks associated with currency mismatches, especially for long-term infrastructure projects that do not generate hard currency revenues. Following inaugural financing operations in RMB in 2016 and ZAR in 2019, an equity investment of USD 100 million equivalent was approved in 2020 to be disbursed for investment in an INR-denominated fund of funds. The Bank will also pursue local currency operations in other member countries in accordance with its funding, risk policies and market conditions, and members' demands. In 2020, the Bank also approved tailor-made facilities in other currencies to satisfy its clients' needs.

Approvals by currency were less diversified compared to the previous year, in accordance with member countries' demands and the Bank's continuous risk assessment of its funding and portfolio. The approval of a COVID-19 Emergency Loan to China in RMB explains the share of RMB loans. The response to the pandemic contributed to lower-than-expected approvals in other local currencies, which should be resumed gradually in a post-COVID scenario.

In 2020, NDB continued to improve the balance of its operations across member countries. By the end of the past year, no member country had a share of total approvals of less than 14%. The trend is only partly explained by COVID-related operations. Portfolio geographical distribution benefited significantly from the scaling up in operations following the opening of the regional centres in South Africa (2017), Brazil (2019) and, more recently, Russia (2020).

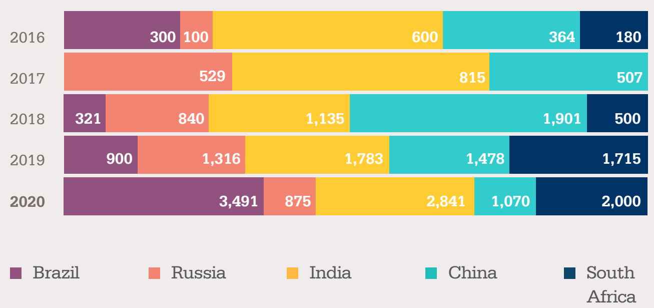
Yearly approvals and end-of-period portfolio by currency[29]

USD billion and %



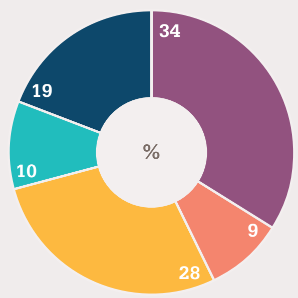
Evolution of approvals by country

2016-2020
USD million



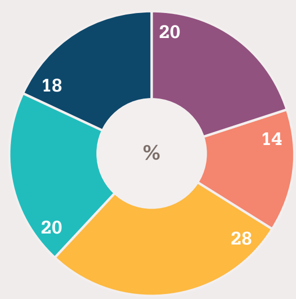
Approvals by country

2020



Portfolio by country

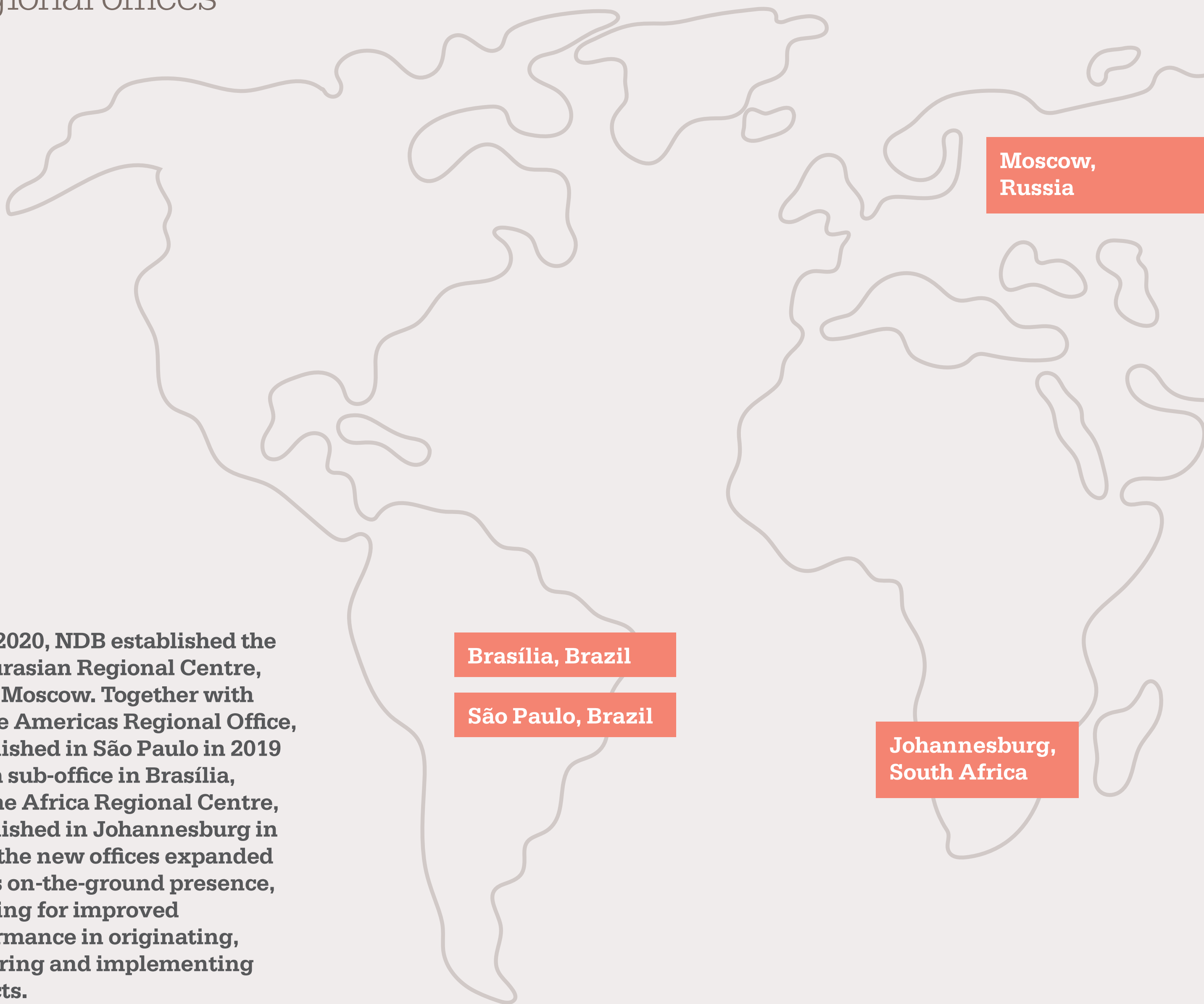
As at 31 December, 2020



Brazil Russia India China South Africa

29 Calculations are based on end-of-period exchange rates.

Regional offices



In 2020, NDB established the Eurasian Regional Centre, in Moscow. Together with the Americas Regional Office, established in São Paulo in 2019 with a sub-office in Brasília, and the Africa Regional Centre, established in Johannesburg in 2017, the new offices expanded NDB's on-the-ground presence, allowing for improved performance in originating, preparing and implementing projects.

The Bank's global network of offices, soon to be complemented by a regional office in India, allows for an enhanced engagement with clients and a better understanding of local market conditions, thus stepping up NDB's capacity to gradually build a more sophisticated portfolio of projects. The offices have also an important role in elevating the profile of the Bank and communicating with national and local governments, the private sector and civil society. They are part of NDB's effort to increase the complexity of its operations and also to help create a network of business and development opportunities that may leverage the synergies of member countries through knowledge and information sharing.

3
Regional offices

1
Sub-office established

Project Preparation Fund[30]

The Project Preparation Fund (PPF) was established by NDB's Board of Governors in January 2017 as a multi-donor fund designed to support preparation of bankable projects through the provision of technical assistance (TA). To date, the PPF has received total contributions of USD 7 million, through agreements signed with China (USD 4.0 million) and Russia (USD 1.5 million), in 2017, and India (USD 1.5 million), in 2018.

In 2020, NDB's BoD approved a USD 0.4 million PPF TA project to support the upgrade of Kaliningrad Sea Port, taking the total amount of approvals under the PPF to USD 0.8 million.[31] In 2019, NDB also approved another PPF TA facility to support the preparation of one transport infrastructure project in Russia. These two TA facilities will fund consulting services for key project preparation components, such as environmental and social assessment, as well as technical, financial and economic feasibility studies, which are required to bring these projects up to the stage where they can be considered by external financiers.

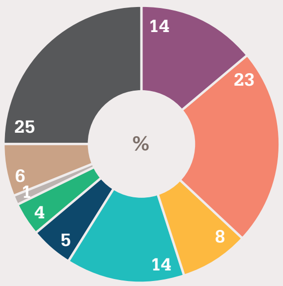
Providing support for project preparation and helping member countries develop quality projects that can attract financing from NDB and other financiers is an essential component of the Bank's mandate. Going forward, the Bank intends to conduct a review of the PPF to make it more attractive and effective in helping to bridge the large preparation needs of clients in member countries.

30 PPF Financial Statements at December 31, 2020 are included in the final part of this report.
31 Excludes the USD 0.3 million TA facility for the Mizoram Hydro Project in India, which was approved in 2019 and cancelled in 2020.

Key areas of operation 2016-2020

Portfolio of projects by key area of operation

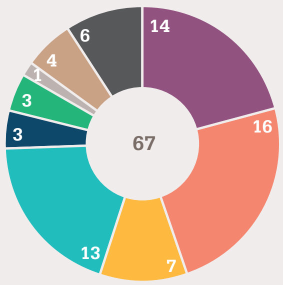
End-2020



	USD million
Clean energy	3,496
Transport infrastructure	5,736
Irrigation, water resource management and sanitation	1,891
Urban development	3,466
Environmental efficiency	900
Social infrastructure	1,010
Digital infrastructure	300
Multi-theme	1,566
COVID-19 emergency assistance	6,070

Number of portfolio projects by key area of operation

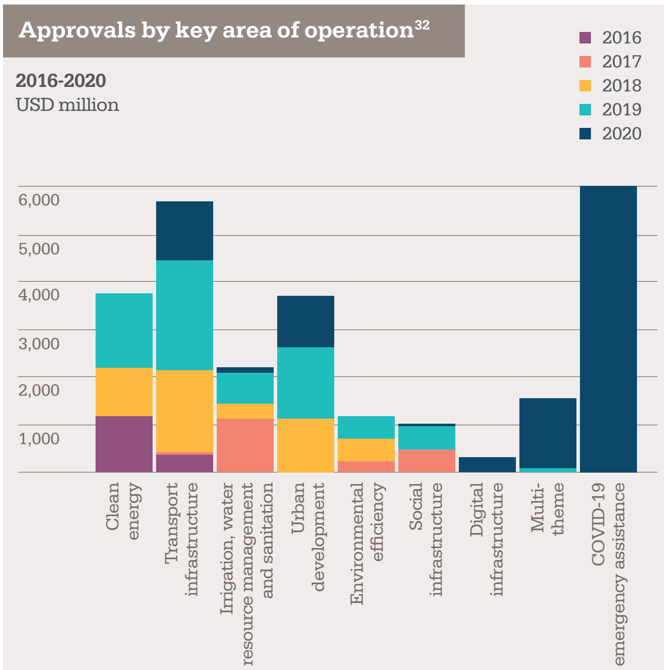
End-2020



- Clean energy
- Transport infrastructure
- Irrigation, water resource management and sanitation
- Urban development
- Environmental efficiency
- Social infrastructure
- Digital infrastructure
- Multi-theme
- COVID-19 emergency assistance

Approvals by key area of operation[32]

2016-2020
USD million



Within the vast space of infrastructure and sustainable development, NDB has been diversifying its portfolio across strategically selected key areas of operations. While these areas fall within the Bank's mandate, they are also closely aligned with the 2030 Agenda, as discussed in the section Development Impact of NDB's operations. In 2020, two areas were added, namely digital infrastructure and COVID-19 emergency assistance.

As discussed in Chapters 2 and 3, the magnitude of the loans approved in 2020 were in line with the needs of member countries to respond to the short-term impacts of the pandemic and to provide them with early assistance towards economic recovery. Considering the cumulative distribution of the NDB's portfolio by area in the period 2016-2020, COVID-related approvals represented almost 25% of total approvals, followed by transport infrastructure, clean energy and urban infrastructure. In 2020, despite the pandemic, NDB approved projects in seven out of the nine key operational areas, including in multi-theme projects, which encompass more than one area.

32 Yearly approvals include canceled or fully repaid projects not computed in end-2020 portfolio.

Clean energy

SDG alignment

Primary SDG alignment

7 AFFORDABLE AND CLEAN ENERGY

Direct contribution to additional SDGs

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE | 11 SUSTAINABLE CITIES AND COMMUNITIES | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION | 13 CLIMATE ACTION

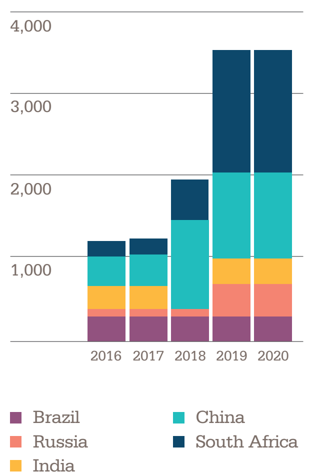
Clean energy has been a clear focus of NDB's operations since the inaugural approvals in 2016. In the period 2016-2020, the Bank approved 15 clean energy projects. At end-2020 the Bank's portfolio included 14 projects totalling USD 3.5 billion (14% of the portfolio), which are expected to increase renewable energy capacity by 2,800 MW across member countries.

As envisaged by SDG 7, addressing the clean energy challenge entails ensuring access to affordable, reliable, sustainable and modern energy for all. It is also one of the core aspects of the energy transition and the commitments by United Nations' members in the Paris Agreement. NDB has always placed an emphasis on innovation aspects of clean energy and its portfolio includes many renewable energy projects, from developing offshore wind power and distributed solar energy to battery energy storage. Other projects address grid-upgrading and support power sector restructuring. Projects in this key area may contribute additionally to SDG 9, SDG 11, SDG 12 and SDG 13.

In 2020, there were no approvals in the clean energy area. The Bank's portfolio of projects continued to be implemented, including through on-lending and parallel financing with other international and national development finance institutions. Also, the COVID-19 pandemic has highlighted the importance of virtual networks and digital connectivity, which require stepping up efforts towards energy efficiency and the sustainability of power sectors. NDB continues to be fully committed to the financing of clean energy projects as one of the key areas of sustainable infrastructure in member countries.

Cumulative approvals for clean energy projects

As at December 31
USD million



Lingang Distributed Solar Power Project, China

Transport Infrastructure

SDG alignment

Primary SDG alignment

Direct contribution to additional SDGs

Locomotive Fleet Renewal Programme, Russia

Transport infrastructure is the operational key area with the largest number of approved projects in the NDB's portfolio, which is also true for the value of approvals excluding COVID-related projects. In the period 2016-2020 the Bank approved 17 projects for transport infrastructure. At end-2020, the Bank's portfolio included 16 projects totalling USD 5.7 billion (24% of the portfolio), which are expected to contribute to the construction of 15,300 km of new or upgraded roads and 820 new or upgraded bridges, among other outputs.

This operational area has diversified towards all member countries since 2018. SDG 9 emphasises the importance of building resilient infrastructure, promoting inclusive and sustainable industrialisation and fostering innovation. Transport infrastructure projects in the Bank's portfolio also contribute to SDG 11 and SDG 3. Many projects address improvements in rural roads, which have a significant impact in contributing to better access for rural populations to education and health services, but also to ensure their connectivity to urban markets and consumers.

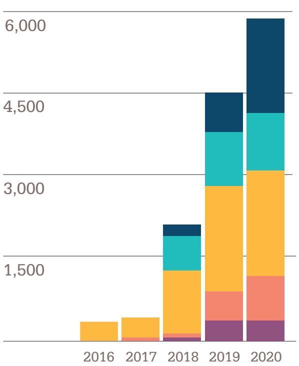
In 2020, NDB approved three projects in the transport infrastructure totalling USD 1.2 billion, two in Russia and one in South Africa.

A non-sovereign loan of EUR 100 million was approved to the Black Sea Trade and Development Bank to support the project Russian Maritime Support Programme. Its primary focus is the development of trade-enabling infrastructure through on-lending to port owners and operators, as well as to maritime companies. A non-sovereign loan of USD 100 million was approved to the Eurasian Development Bank for the Tolls Roads Programme in Russia. It aims to improve transport connectivity in Russia through the expansion of toll roads network, also through on-lending to sub-projects typically based on PPP arrangement.

A sovereign loan of USD 1 billion was extended to South Africa in support of the programme Non-Toll Roads Management. It aims at maintaining and improving critical road infrastructure, thus contributing to lower transportation costs and increase the competitiveness of the economy.

Cumulative approvals for transport infrastructure projects

As at December 31
USD million



Irrigation, water resource management and sanitation

SDG alignment

Primary SDG alignment

Direct contribution to additional SDGs

The area of irrigation, water resource management and sanitation has featured in the Bank's portfolio since 2017. In the period 2016-2020, NDB approved seven projects in the water and sanitation area totalling USD 1.9 billion, which represented 8% of the portfolio at end-2020 and are expected to increase drinking water supply capacity by 159,000 m³/day and sewage treatment capacity by 535,000 m³/day.

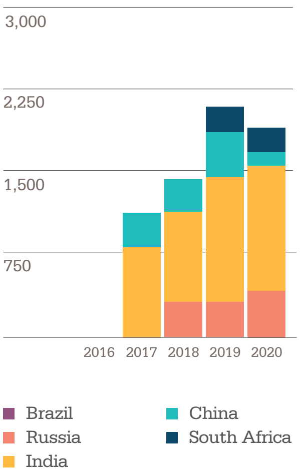
In NDB's portfolio, the key area of water and sanitation has a primary alignment with SDG 6 on ensuring availability and sustainable management of water and sanitation for all and SDG 2 on ending hunger, achieving food security and improving nutrition and promoting sustainable agriculture. Projects in this key area make an additional contribution to SDG 3, SDG 11 and SDG 13. Projects in this area were approved to four member countries and have usually aimed at local or regional water supply systems.

In 2020, NDB approved one project in the area of irrigation, water resource management and sanitation in the amount of USD 100 million.

A non-sovereign loan of USD 100 million was approved to the Eurasian Development Bank to the Water Supply and Sanitation Programme in Russia. It aims to support the modernization and reconstruction of water supply and sanitation facilities in a number of Russian cities, which is expected to contribute to improved environmental protection.

Cumulative approvals for water resource management and sanitation projects

As at December 31
USD million



Madhya Pradesh Water Project, India

Urban development

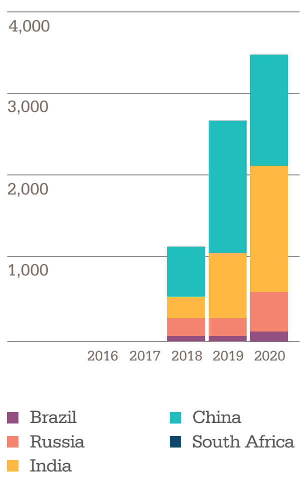
SDG alignment

Primary SDG alignment

Direct contribution to additional SDGs

Cumulative approvals for urban development projects

As at December 31
USD million



The operational key area of urban development entered NDB's portfolio in 2018 and has attracted strong interest from member countries. During 2016-2020, NDB approved 14 urban development projects totalling USD 3.8 billion. At end-2020, the Bank's portfolio included 13 projects that represented 14% of the portfolio and are expected to benefit 40 cities in four member countries and build 230 km of metro or tram rails, among other outputs.

In NDB's portfolio, the key area of urban development has a primary alignment with SDG 11 on making cities and human settlements inclusive, safe, resilient and sustainable. Other SDGs directly impacted by urban development projects in NDB's portfolio are SDG 6, SDG 8, SDG 9 and SDG 13. NDB's projects have concentrated on the financing of urban mobility, notably the construction of metro and tram lines and other rapid transit systems. There are also projects aimed at enhancing urban infrastructure and protecting cultural heritage.

In 2020, NDB approved four urban development projects totalling USD 1.1 billion in three member countries.

A sovereign loan of EUR 205 million was approved to Russia to support the project Small Historic Cities Development Phase II. It aims to promote the preservation and development of cultural heritage in eight small Russian cities in order to drive tourism and improve local economies.

Two sovereign loans were approved to India with a focus on urban mobility: a loan of USD 241 million was approved to support the Mumbai Metro Rail II Project and a loan of USD 500 million was approved to the project Delhi-Ghaziabad-Meerut Regional Rapid Transit System. The latter will be jointly financed by the Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank (AIIB). It will aim to develop a regional public transport system to reduce congestion, which will reduce travel time, improve safety conditions and generate more economic opportunities for the local population. The second phase of the Mumbai Metro Rail will contribute to the implementation of Line 6, which will integrate western and eastern suburbs of the city, thus reducing road congestion, enhancing safety and offering a better quality of life to Mumbai residents.

A sovereign-guaranteed loan of USD 75 million was approved to the Municipality of Curitiba in Brazil to support the Bus Rapid Transit (BRT) Rideability Improvement Project. Curitiba's BRT is an example of efficient transportation that has been continuously improved. The project aims to enhance the quality of the BRT thus encouraging the use of public transportation at lower costs and reduced time, contributing to reduce congestion and emissions.

EUR 205 m

Sovereign loan approved to Russia to support the project Small Historic Cities Development Phase II

USD 241 m

Approved to support the Mumbai Metro Rail II project in India

Environmental efficiency

SDG alignment

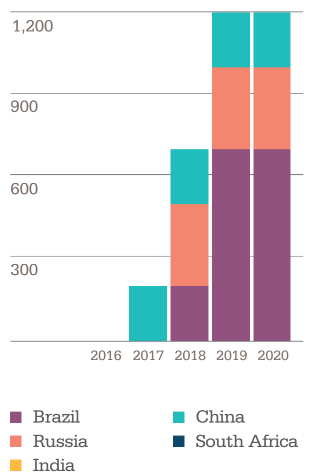
Primary SDG alignment

Direct contribution to additional SDGs

SIBUR Sustainable Infrastructure & Environmental Safety Project, Russia

Cumulative approvals for environmental efficiency projects

As at December 31
USD million



The operational key area of environmental efficiency entered NDB's portfolio in 2017 and is aligned with NDB's commitment to facilitate member countries' economic transition to more sustainable and responsible patterns of production and consumption. It encompasses projects with innovative and environmental efficient technologies applied either in new economic activities or as a means to redress effects of past activities on the environment.

During 2016-2020, NDB approved four environmental efficiency projects totalling USD 1.2 billion. In 2020, there were no approvals in this operational key area.

Primary alignment of environmental efficiency projects in NDB's portfolio with SDG 9 on industry, innovation and infrastructure and SDG 13 on urgent climate action is complemented to contributions to SDG 6 and SDG 12. NDB is committed to continuing to support its member countries in upgrading their technologies to promote sustainable development.

Social infrastructure

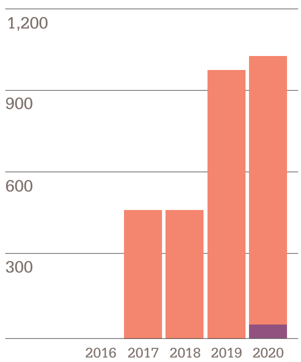
SDG alignment

Primary SDG alignment

Direct contribution to additional SDGs

Cumulative approvals for social infrastructure projects

As at December 31
USD million



NDB expanded its operations into the area of social infrastructure in 2017, when the Bank approved a judicial system support project in Russia. In the period 2016-2020, NDB approved three social infrastructure projects totalling USD 1.0 billion to two member countries (4% of the portfolio at end-2020). Among other benefits, the projects are expected to support building or upgrading 58 schools.

Social infrastructure projects in NDB's portfolio are primarily aligned to SDG 4 on ensuring inclusive and equitable quality education and promoting lifelong learning opportunities for all and SDG 16 on peace, justice and strong institutions. They also contribute to SDG 8 and SDG 11.

In 2020, NDB approved a loan of USD 50 million to social infrastructure in Brazil.

A sovereign-guaranteed loan to the Municipality of Teresina in Brazil was approved to support the Teresina Educational Infrastructure Loan. It aims to enhance school infrastructure to increase the number of students attending full-time elementary schools and to enhance safety conditions for students. Expected outcomes include the construction of new schools, retrofitting of existing schools and support for the remodelling of Teresina's educational programme.

Digital infrastructure

SDG alignment

Primary SDG alignment

The area of digital infrastructure has entered NDB's portfolio in 2020. A non-sovereign loan of USD 300 million was approved to support the project Cellular Network and Cloud Services Expansion in Russia through the Mobile TeleSystems Public Joint Stock Company. It aims to improve mobile network penetration across Russia and to cloud-based infrastructure.

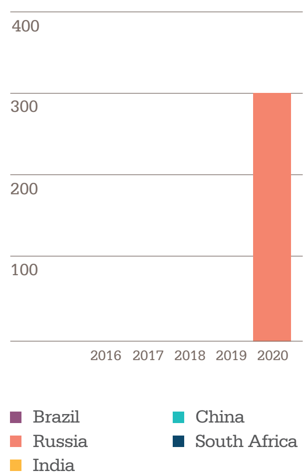
Expected development impacts include not only greater broadband access to Russian households but also improving connectivity of small and rural cities across the entire country and enhancing data security and reducing costs for enterprises as the result of the migration to cloud-based services.

A primary alignment was identified with SDG 9 on building resilient infrastructure and promoting inclusive, and sustainable industrialisation and fostering innovation.

Going forward, NDB is fully committed to support member countries' demands related to investments in the digital economy and related fields embedded within infrastructure and sustainable development. The interlinkages between the digital infrastructure and traditional infrastructure are an important part of the technological landscape. But the vast scope and fast pace of the digital economy and its relationships to the Industry 4.0 and to the future of work will demand more sophisticated development policies and business models to thrive. Understanding those interconnections and leveraging lessons learned and common challenges are an important part of NDB's commitment in the next years.

Cumulative approvals for digital infrastructure projects

As at December 31
USD million



Multi-theme

SDG alignment

Primary SDG alignment

The operational key area of multi-theme projects entered NDB's portfolio in 2019 and involves mostly equity investments or on-lending projects that are in line with NDB's mandate. It allows for an expansion of the Bank's outreach to national development and private financial institutions and supports projects with innovative business models that encourage capital markets participation in infrastructure projects. In the period 2016-2020, NDB has approved four multi-theme projects totalling USD 1.6 billion.

While the primary alignment of multi-theme projects involves SDG 9 on industry, innovation and infrastructure, multiple linkages with other key areas will allow for other possible SDG alignments and expected development impacts as the projects evolve.

In 2020, NDB approved three multi-theme projects totalling 1.5 billion in two member countries.

A sovereign-guaranteed loan of EUR 135 million was approved to Brazil's Banco Regional do Desenvolvimento do Extremo Sul (BRDE) to the BRDE's Urban, Rural and Social Infrastructure Programme. BRDE will on-lend the resources to sub-projects in small municipalities without access to international financing and companies, including to support their participation in infrastructure PPPs. The project also aims to allow for a significant increase in BRDE's portfolio adherence to SDGs.

A sovereign-guaranteed loan of USD 1.2 billion was approved to BNDES-NDB Sustainable Infrastructure Project, to support BNDES on-lending to public and private infrastructure projects in the following sectors: renewable energy and energy efficiency, urban mobility, water and sanitation, transport and logistics, information and communication technology and social infrastructure. The project will emphasise identification and promotion of innovation in the selected sub-projects, which is expected to enhance BNDES' and NDB's capacity to integrate innovation in its development projects, both with regard to technical and financial characteristics of the projects, as well as their implementation and impacts.

The Bank approved an equity investment of up to INR 7.3 billion (USD 100 million) in the National Investment and Infrastructure Fund Limited of India to support its investment in the Fund of Funds I (FoF-I), which will invest in portfolio funds as the anchor or in several private equity funds with soundtrack record, distinctive advantages and experienced fund managers. Investments shall focus on green infrastructure, social infrastructure, affordable housing, infrastructure services, agribusiness, financial services and other activities with a focus on job creation and supporting small and medium enterprises. Among other impacts, the project is expected to contribute to support private capital investments in India infrastructure.

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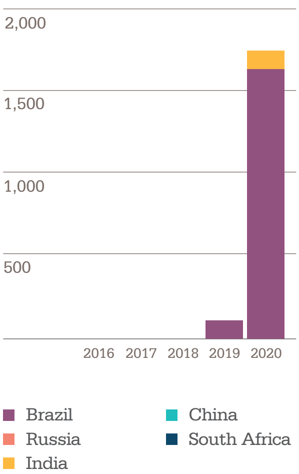
Cumulative approvals for multi-theme projects

As at December 31
USD million



USD 1.6 bn

Total of four multi-theme projects approved by NDB in the period 2015-2020

USD 1.2 bn

Sovereign-guaranteed loan was approved to the BNDES-NDB Sustainable Infrastructure Project to support BNDES on-lending to public and private infrastructure projects

COVID-19 emergency assistance

SDG alignment

Primary SDG alignment

Direct contribution to additional SDGs

As discussed in Chapter 2, in 2020, NDB's response to the COVID-19 pandemic in support of member countries demands entailed swift policy, operational and financial adaptations under the commitment of providing a total of USD 10 billion for the Emergency Assistance Programme and its related fast-track facility. Details on the six loans approved by NDB in 2020 totalling USD 6 billion for combating COVID-19 consequences and supporting economic recovery were presented in Chapter 2. At end-2020, COVID-19 related projects represented 25% of NDB portfolio.

Fighting the pandemic and helping mitigate and overcome its global health, humanitarian and economic consequences has also expanded the areas of operations of NDB, as discussed in Chapter 3, which incorporated SDG 1 of ending poverty in all its forms everywhere. Part of the Bank's COVID-related loans were used to cover current expenditures rather than the usual capital expenditures in MDB projects, including income transfers to strengthen social safety nets. SDG 3, ensuring good health and well-being, is also a primary alignment of the COVID-19 emergency assistance programme, together with SDG 8 on promoting growth and employment. In accordance with member countries' demands, NDB's emergency assistance funds will also be used to increase resilience of economic activity through specific fiscal support to help ease the burden on SMEs, which are usually the largest employers in most countries.

NDB's COVID-19 emergency assistance also contributes, through the specific design of its projects, to SDG 6, SDG 9 and SDG 11.

Given the magnitude of the health and economic impacts of the pandemic and the complexity of its effects, which cannot be fully foreseen at the time of writing, nuances may arise during project implementation. In Brazil, for example, the large-scale Emergency Aid Programme of the federal government, partially supported by loans from NDB and other MDBs, has promoted the digital inclusion of millions of families in the national single registry of social programmes and in the mobile banking system. Of the 68 million people who received emergency aid, 40 million did not have a bank account before. Vulnerable groups now are part of the social safety nets through their social bank account, without fees and in a mobile environment.

Read more

Response to COVID-19
Read more about NDB's response to COVID-19

See page 17-22

Treasury activities and risk management

Funding strategy and activities and credit ratings

NDB's two USD bond issues in 2020 in international capital markets constituted milestones for the consolidation of NDB's funding strategy and its gradual diversification.

Funding strategy

NDB's funding strategy aims to ensure that sufficient resources are available to meet the Bank's liquidity requirements, while minimising borrowing costs through cost-effective issuances. The funding strategy is primarily driven by the need to support NDB's growing loan portfolio, while taking into consideration the dynamics of global markets.

NDB's funding strategy includes the following main key aspects:

- Diversification of funding by instrument, currency, tenor and type of interest rate;
- Access to the international capital markets;
- Domestic borrowing programmes in BRICS countries;
- Regular issuances;
- Benchmark-size transactions;
- Focus on green, social and sustainability debt instruments;
- Alignment with the United Nations 2030 Agenda for Sustainable Development.

NDB utilises and intends to develop its diversified portfolio of funding instruments in hard currencies, local currencies of its member countries and other currencies based on the parameters of its loan portfolio, investor demand and market dynamics.

The Bank aims to raise funds in the international markets and the domestic markets of its member countries through public and private transactions with due regard to appropriate hedging mechanisms within its risk management policies and frameworks.

Based on its strong credit ratings, NDB has been able to meet its funding needs by establishing programmes in international capital markets and in domestic markets of its member countries. The Bank has established the following borrowing programmes in international capital markets:

- USD 50 billion euro medium-term note programme;
- USD 8 billion euro-commercial paper programme.

Local currency financing is a key component of NDB's value proposition to its clients, as it mitigates risks faced by borrowers and at the same time supports the deepening of financial markets of its member countries. The Bank has established the following borrowing programmes for the purposes of raising funds in the currencies of its member countries in domestic markets and international markets:

- RUB 100 billion domestic bond programme in Russia;
- RMB 20 billion domestic bond programme in China;
- ZAR 10 billion domestic bond programme in South Africa;
- USD 50 billion euro medium-term note programme[33] (allows for offshore issuance in BRL, RUB, INR, RMB and ZAR).

At the end of 2020, the total outstanding amount of bonds issued by NDB across both international and domestic markets reached USD 5.5 billion and the outstanding amount of euro-commercial papers issued totalled USD 2.8 billion.

33 USD 50 billion euro medium-term note program was established for fundraising both in hard currencies (USD, EUR, GBP, etc.) in the international markets and domestic currencies in the international markets.

Funding activities in 2020

In April 2020, the Bank issued a RMB 5 billion 3-year Coronavirus Combating Bond in China. The transaction attracted interest from high-quality domestic and international investors and it had successful results, notably:

- Final order book in excess of RMB 15 billion, more than three times oversubscribed;
- Bond priced at the lower end of the announced pricing range;
- Largest-ever RMB-denominated bond issued by an MDB in China;
- First RMB-denominated Coronavirus Combating Bond issued by a MDB in China;
- Distribution of investors by region:
  China Mainland – 41%,
  EMEA – 45%,
  APAC (excl. China Mainland) – 14%.
- Distribution by investor type:
  Central Banks/Official Institutions – 54%,
  Banks – 45%,
  Securities Companies – 1%.

In July 2020, NDB placed a RMB 2 billion bond in China, with a maturity of five years and a coupon rate of 3%. The final book size closed in excess of RMB 4 billion, representing an oversubscription of 2.1 times.

In October 2020, the Bank registered its second RMB bond programme in China for an amount of RMB 20 billion. NDB places special emphasis on the development impact of its operations, with a commitment to contribute to the achievement of the SDGs. The Bank aims to be the pilot issuer to test the UNDP Practice Assurance Standards for SDG Bonds and UNDP China's SDG Finance Taxonomy under the approved RMB bond programme in China.

With the described bond issuances in 2020, NDB established itself as regular issuer in China and brought the total outstanding amount of bonds to RMB 13 billion.

In June 2020, the Bank issued its first USD 1.5 billion, 3-year COVID Response Bond in the international markets. It represented NDB's inaugural USD benchmark in the international markets. The net proceeds of the bond issue are being used to finance sustainable development activities, including emergency assistance loans.

Transaction highlights were:

- NDB became the first MDB to execute its debut placement in the international markets in a fully virtual format;
- Largest debut USD transaction under Reg S format since 2011;
- Exceptional support from high-quality investors, with strong participation from central banks and official institutions, which represented 75% of allocations;
- Distribution of investors by region:
  Asia – 56%,
  EMEA – 29%,
  Americas – 15%;
- Robust investor demand allowed NDB to tighten the pricing by 7bps as compared to the upper limit of initial price estimates and to achieve a coupon rate of 0.625%.

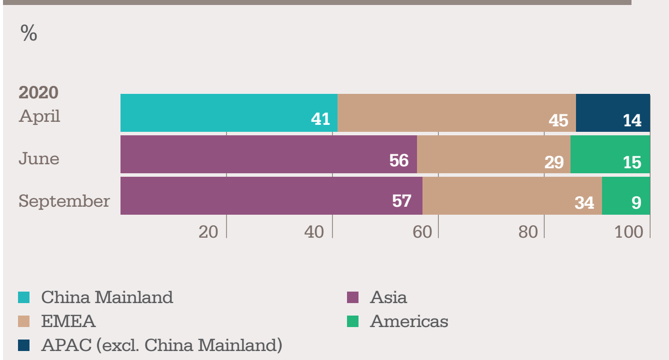
In June 2020, the Bank increased the size of its ECP programme from USD 2 billion to USD 8 billion. This aligned with increasing investor demand and the Bank's growing liquidity needs in light of the expansion of NDB's lending activities. The Bank gained additional flexibility and headroom for the Treasury Department to improve access to short-term liquidity.

Funding strategy

NDB's funding strategy includes the following main key aspects:

- Diversification of funding by instrument, currency, tenor and type of interest rate;
- Access to the international capital markets;
- Domestic borrowing programmes in BRICS countries;
- Regular issuances;
- Benchmark-size transactions;
- Focus on green, social and sustainability debt instruments;
- Alignment with the United Nations 2030 Agenda for Sustainable Development.

NDB's 2020 bond issues distribution by investor type



USD 8 bn

ECP programme increase from USD 2 bn in June 2020

USD 2 bn

Five-year COVID Response Bond issued in the international markets in September 2020

In September 2020, the Bank issued a USD 2 billion 5-year COVID Response Bond in the international markets. The net proceeds of the bond issuance are being used to finance sustainable development activities in the Bank's member countries, including COVID-related Emergency Assistance Programs. Some transaction highlights were:

- Notable demand from a geographically-diverse investor base and substantial participation from central banks and official institutions, which accounted for 66% of final allocations;
- Distribution of investors by region:
  Asia – 57%,
  EMEA – 34%,
  Americas – 9%;
- 5-year bond was issued at a spread of 37bps over mid-swaps with a fixed annual coupon of 0.625%.

NDB's two USD bond issues in 2020 in international capital markets constituted milestones for the consolidation of NDB's funding strategy and its gradual diversification.

In December 2020, NDB issued its first private placement under the EMTN programme in the amount of USD 50 million and maturity of two years. The issuance further diversifies the Bank's funding sources. To demonstrate NDB's strategic commitment to promoting sustainable development, the Bank aims to further develop its funding activities in green, social and sustainability area.

In May 2020, the Board of Directors of NDB approved the Sustainable Financing Policy Framework governing the issuances of green/social/sustainability debt instruments. This was an important milestone for the Bank in strengthening its sustainability impact across funding activities. The Framework describes the Bank's principles in governing the use and management of the proceeds of green, social and sustainability bonds issued in international and domestic capital markets of its member states; the process for project selection and evaluation; and the reporting and disclosure rules related to respective debt instruments.

Credit ratings

NDB has AAA long-term international credit rating assigned by Japan Credit Rating Agency (JCR) and Analytical Credit Rating Agency (ACRA), as well as AA+ long-term international credit rating received from S&P Global Ratings (S&P) and Fitch Ratings (Fitch). The Bank has AAA domestic credit rating in China assigned by China Chengxin International Credit Rating (CCXI) and China Lianhe Credit Rating (Lianhe), and AAA (RU) national rating assigned by ACRA. The outlook of all the credit ratings assigned to the Bank is stable.

In January 2020, ACRA assigned to NDB a AAA international rating, outlook stable, and AAA (RU) national rating, outlook stable, for Russia. ACRA stated in its press release that the credit rating assigned to the Bank is primarily based on its very strong intrinsic financial strengths that stem from strong capital adequacy, a strong risk profile, strong liquidity and funding, as well as its systemic importance to the shareholder founding members that enhances the quality of commitments. 'The Bank's management quality, strategy and operational transparency are strong,' stated the rating agency.

NDB's credit ratings were confirmed by credit rating agencies along 2020.

In May 2020, the Board of Directors of NDB approved the Sustainable Financing Policy Framework governing the issuances of green/social/sustainability debt instruments.

NDB's credit ratings confirmations in 2020 by date and credit rating agency:

Month/2020	Credit rating agency	Credit rating
January/July/December (semi-annual credit rating reviews)	ACRA	AAA international long-term AAA (RU) domestic long-term
February	S&P	AA+ international long-term A-1+ international short-term
July	Fitch	AA+ international long-term F1+ international short-term
July	CCXI and Lianhe	AAA domestic long-term
September	JCR	AAA international long-term

Treasury portfolio management

In 2020, the Bank greatly diversified its Treasury investment portfolio in terms of instruments, jurisdictions, currencies and counterparties.

Investments

Treasury investment portfolio expansion accompanied the Bank's growing treasury and funding activities in the international markets and the domestic markets of its member countries. In 2020, the Bank greatly diversified its Treasury investment portfolio in terms of instruments, jurisdictions, currencies and counterparties, while giving due regard to conservative risk management policies and guidelines.

The Bank's Treasury investment portfolio comprises of bonds, commercial papers, certificates of deposit, term deposits, money market funds and reverse repos with high international credit ratings in hard currencies and local currencies of the Bank's member countries.

In 2020, in order to strengthen its local currency footprint, NDB expanded investment activities in local currencies of its member countries, based on fully hedged instruments.

The primary strategy for the overall Treasury investment portfolio is to preserve the capital of the Bank, maintain high liquidity and minimise risks, while generating sufficient income.

Infrastructure development

The Bank achieved significant progress in building treasury infrastructure including opening corresponding accounts in hard currencies and in the local currencies of its member countries. It opened custodian accounts for investments in various fixed income instruments, on-boarded diversified list of counterparts for investments, hedging and funding, and enhanced the existing treasury management system for portfolio management.

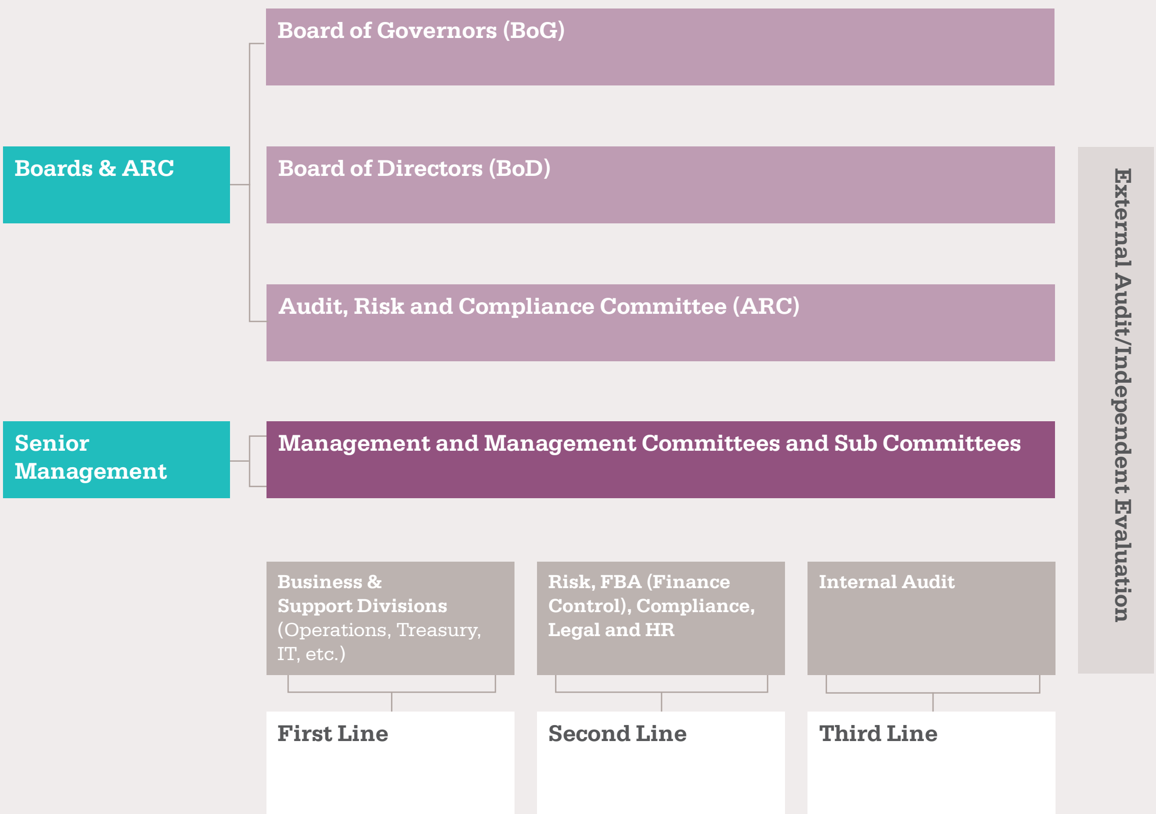
In 2020, NDB started to execute RMB Repo/Reverse Repo transactions with market participants in China to increase flexibility for RMB liquidity management and enhance returns, while reducing credit risks. The Bank also became a participant of the FX interbank lending facility in China, which serves as a supplemental funding source for NDB. Moreover, the Bank developed its pricing framework for BRL-denominated loans, enabling the extension of financing in this currency in addition to USD, EUR, RMB and ZAR.

The Bank established LIBOR Transition Steering Committee and LIBOR Transition Working Group to ensure a smooth transition to post-LIBOR markets.

Risk management, integrity and accountability

NDB adopts a conservative and integrated approach to managing financial and non-financial risks, as established in the Enterprise Risk Management and Risk Appetite Framework approved by the BoD. This framework provides guidance to strategic planning and day-to-day operational decision making, to ensure prudent, effective, consistent, transparent and accountable management of all types of risks.

The Three Lines of Defence Model[34]



34 In the new organisational structure approved by NDB BoD on December 15, 2020, the Compliance and Investigations Department has a direct reporting channel to the BoD and the existing Internal Audit function is to be headed at the Director-General level.

According to the framework, the Bank's risk governance structure is based on a three lines of defence model. The roles and responsibilities, risk ownership and segregation of duties among NDB's functions have been clearly articulated as part of its overall risk governance architecture.

Within the three lines of defence, frontline business decision makers working on individual projects, transactions, investments and fundraising activities (operations, treasury) along with IT, administration supporting functions are the first line of defence. They are responsible for managing risks within their respective areas on an ongoing basis.

Functions within the second line of defence are fully independent and have oversight of the effectiveness of the first line of defence controls. Their role is to ensure that the Bank meets its business objectives with the highest ethical and professional standards and within the applicable legal and internal rules. To further strengthen NDB's second line of defence, relevant teams of the Bank spearheaded a number of initiatives in 2020, as described below.

The Bank's **Risk Management Department** oversees risks related to NDB's activities, including credit, market, liquidity and operational risks, following leading practices that are aligned with highest international standards. In 2020, the Bank sophisticated loan monitoring process and credit risk assessment methodology for non-sovereign transactions, implemented the measurement of economic capital and consolidated a comprehensive risk reporting to Management and the Board. In addition, the Risk Management Department supported the Bank to ensure operational resilience of critical operations, services and systems during the onset of the COVID-19 pandemic. Comprehensive risk and capital adequacy metrics have supported the Bank's decision-making process, based on solid economic rationale and conservative risk profile.

NDB's legal team provides counsel to the BoD, Management and staff on legal aspects of NDB's policies, operations, finance and administration. In 2020, the legal team actively contributed to the development of NDB's key policies and guidelines and continued to promote, in consultation with other NDB departments and divisions, improvements in the legal documents and working procedures, in line with the Bank's commitment to operational precision and efficiency. In 2020, the Legal Department organised a series of legal seminars and events in and outside the Bank, including with legal departments of other MDBs, to share experience and build relationships for cooperation.

The Legal Department was awarded the 'In-house Team of the Year – International Company' in the prestigious China Law & Practice Awards 2020. This award recognises an array of the most influential and innovative in-house legal teams working in the China region.

The **Compliance and Investigations Department** at NDB has the responsibility of administering policies approved by the BoD in the areas of compliance management, anti-corruption, anti-fraud and anti-money laundering (AML), as well as the Code of Business Conduct and Ethics. To implement these policies, specific procedures for integrity due diligence, debarment and handling of whistleblowing complaints have been formulated. Bank-wide training and awareness programmes on these topics have been offered on a regular basis. In 2020, the Bank strengthened its collaboration with the OECD and **International Anti-Corruption Academy (IACA)** in areas such as review of national integrity systems and anti-corruption capacity building. In the NDB's new organisational structure approved on December 15, 2020, the Compliance and Investigations Department has a direct reporting channel to the BoD.

The **Internal Audit Department (IAD)** is an independent assurance function and effectively serves as the third line of defence to assist the Bank to accomplish its objective by adopting a systematic and disciplined approach to evaluate and improve the effectiveness of the risk management, internal control and governance processes. This is carried out by conducting assurance and non-assurance engagements. The IAD also provides to the **Audit, Risk and Compliance (ARC) Committee** of the Board of Directors and to Management objective assurances, analyses, recommendations, advice and information concerning the activities of the Bank for the improvement of its control environment. During 2020, IAD conducted its audits in line with the approved Risk-Based Internal Audit Plan and in accordance with the Institute of Internal Auditors' International Professional Practices Framework (IPPF) using cloud-based audit management software. IAD continued to collaborate with internal audit functions of other MDBs for exchange of best practices.

The **external auditor,** which is appointed by the BoD, is responsible for conducting NDB's annual external audit. It provides its opinion on NDB's financial statements ensuring that they are free from material misstatement and prepared in accordance with the appropriate financial reporting framework, including the Project Preparation Fund. The external auditor provides an independent assurance to the BoG, BoD and Management.

The Bank's risk governance structure is based on a three lines of defence model. The roles and responsibilities, risk ownership and segregation of duties among NDB's functions have been clearly articulated as part of its overall risk governance architecture

Awards 2020

The Legal Division, China Law & Practice Awards 2020

- In-house Team of the Year – International Company

> NDB Management and staff are fully committed to enhancing the Bank's contributions to our member countries and the global development community by being New every day.

Mr. Marcos Troyjo
President

Financing of Renewable Energy Projects and Associated Transmission (BNDES), Brazil

Annexe

NDB head office's
IT infrastructure

List of NDB's approved projects

2016

No.	Project name	Type	Country	Financing currency	Financing amount (million)
1	**Financing of Renewable Energy Projects and Associated Transmission (BNDES)**	Non-sovereign	Brazil	USD	300
2	**Canara Renewable Energy Financing Scheme**[35]	Sovereign	India	USD	250
3	**Lingang Distributed Solar Power Project**[36]	Sovereign	China	RMB	525
4	**Project Finance Facility for Eskom**	Sovereign	South Africa	USD	180
5	**Nord-Hydro Project (On-lending through EDB)**	Non-sovereign	Russia	USD	50
6	**Nord-Hydro Project (On-lending through IIB)**	Non-sovereign	Russia	USD	50
7	**Madhya Pradesh Major District Roads Project**	Sovereign	India	USD	350
8	**Putian Pinghai Bay Offshore Wind Power Project**	Sovereign	China	RMB	2,000

2017

No.	Project name	Type	Country	Financing currency	Financing amount (million)
9	**Judicial System Support Project**	Sovereign	Russia	USD	460
10	**Madhya Pradesh Multi Village Water Supply Project**	Sovereign	India	USD	470
11	**Hunan Ecological Development Project**[37]	Sovereign	China	RMB	2,000
12	**Jiangxi Industrial Low Carbon Restructuring and Green Development Pilot Project**	Sovereign	China	USD	200
13	**Ufa Eastern Exit Project**[38]	Sovereign	Russia	USD	69
14	**Rajasthan Water Sector Restructuring Project**	Sovereign	India	USD	345

35 Cancelled in 2018.
36 Partially cancelled in 2020. Outstanding amount is RMB 242.9 million.
37 Cancelled in 2020.
38 Cancelled in 2019.

2018

No.	Project name	Type	Country	Financing currency	Financing amount (million)
15	**Pará Sustainable Municipalities Project**	Sovereign	Brazil	USD	50
16	**Maranhão Road Corridor – South North Integration**	Sovereign	Brazil	USD	71
17	**Environmental Protection Project**	Non-sovereign	Brazil	USD	200
18	**Volga Water Supply and Sanitation Systems Project**	Sovereign	Russia	USD	320
19	**Small Historic Cities Development Project**	Sovereign	Russia	USD	220
20	**Bihar Rural Roads Project**	Sovereign	India	USD	350
21	**Chongqing Small Cities Sustainable Development Project**[39]	Sovereign	China	USD	300
22	**Durban Container Terminal Berth Reconstruction Project**	Non-sovereign	South Africa	USD	200
23	**Luoyang Metro Project**	Sovereign	China	USD	300
24	**Greenhouse Gas Emissions Reduction and Energy Sector Development Project**	Non-sovereign	South Africa	USD	300
25	**Sustainable infrastructure in relation to 'ZapSibNefteKhim' Project**[40]	Non-sovereign	Russia	USD	300
26	**Madhya Pradesh Major District Roads II Project**	Sovereign	India	USD	350
27	**Madhya Pradesh Bridges Project**	Sovereign	India	USD	175
28	**Mumbai Metro Rail Project**	Sovereign	India	USD	260
29	**Hohhot New Airport Project**	Sovereign	China	RMB	4,200
30	**Guangdong Yudean Yangjiang Shapa Offshore Wind Power Project**	Sovereign	China	RMB	2,000
31	**Jiangxi Natural Gas Transmission System Development Project**	Sovereign	China	USD	400

39 Cancelled in 2020.
40 Fully repaid in 2020.

2019

No.	Project name	Type	Country	Financing currency	Financing amount (million)
32	**Zhejiang Green Urban Project – Shengzhou Urban and Rural Integrated Water Supply and Sanitation Project Phase II**	Sovereign	China	RMB	825
33	**Chongzuo Water Resource Rehabilitation and Ecological Conservation Project**	Sovereign	China	USD	300
34	**Lesotho Highlands Water Project Phase II (Project Loan to TCTA)**	Sovereign	South Africa	ZAR	3,200
35	**Environmental Protection Project for Medupi Thermal Power Plant**	Sovereign	South Africa	USD	480
36	**Renewable Energy Sector Development Project**	Non-sovereign	South Africa	ZAR	1,150
37	**Ningxia Yinchuan Integrated Green Transport Development Project**	Sovereign	China	RMB	2,100
38	**Lanzhou New Area Regional Hub Multimodal Logistics and Transport Infrastructure Demonstration Project**	Sovereign	China	RMB	2,512
39	**Assam Bridge Project**	Sovereign	India	USD	300
40	**Development of Renewable Energy Sector in Russia Project**	Non-sovereign	Russia	USD	300
41	**Andhra Pradesh Roads and Bridges Reconstruction Project**	Sovereign	India	USD	323
42	**Andhra Pradesh Mandal Connectivity and Rural Connectivity Improvement Project**	Sovereign	India	USD	323
43	**South African National Toll Roads Strengthening and Improvement Programme**	Sovereign	South Africa	ZAR	7,000
44	**Fundo Clima – Brazil National Climate Fund Project**	Sovereign	Brazil	USD	500
45	**REC Renewable Energy Sector Development Project**	Non-sovereign	India	USD	300
46	**North Region Transportation Infrastructure Improvement Project**	Non-sovereign	Brazil	USD[41]	300
47	**Manipur Water Supply Project**	Sovereign	India	USD	312
48	**Indore Metro Rail Project**	Sovereign	India	USD	225
49	**Huangshi Modern Tram Project**	Sovereign	China	RMB	2,760
50	**Patria Infrastructure Fund IV**	Non-sovereign	Brazil	USD	100
51	**Locomotive Fleet Renewal Programme in Russia**	Non-sovereign	Russia	CHF	500
52	**Eskom Battery Energy Storage Project**	Sovereign	South Africa	ZAR	6,000
53	**Development of Educational Infrastructure for Highly Skilled Workforce**	Sovereign	Russia	EUR	Equivalent to USD 500

41 Included a USD 50 million portion that could be delivered in RMB, which was fixed at USD 10 million equivalent upon loan negotiation.

2020

No.	Project name	Type	Country	Financing currency	Financing amount (million)
54	**NDB Emergency Assistance Programme in Combating COVID-19**	Sovereign	China	RMB	7,000
55	**National Investment and Infrastructure Fund (FoF-I)**	Non-sovereign	India	INR	Equivalent to USD 100[42]
56	**NDB Emergency Assistance Programme in Combating COVID-19**	Sovereign	India	USD	1,000
57	**Teresina Educational Infrastructure Programme**	Sovereign	Brazil	USD	50
58	**NDB Emergency Assistance Programme in Combating COVID-19**	Sovereign	South Africa	USD	1,000
59	**Small Historic Cities Development Project Phase II**	Sovereign	Russia	EUR	205
60	**NDB Emergency Assistance Programme in Combating COVID-19**	Sovereign	Brazil	USD	1,000
61	**Mumbai Metro Rail II Project**	Sovereign	India	USD	241
62	**Delhi-Ghaziabad-Meerut Regional Rapid Transit System Project**	Sovereign	India	USD	500
63	**Russian Maritime Sector Support Programme**	Non-sovereign	Russia	EUR	100
64	**Toll Roads Programme in Russia**	Non-sovereign	Russia	USD	100
65	**Water Supply and Sanitation Programme in Russia**	Non-sovereign	Russia	USD	100
66	**Supporting Brazil's Economic Recovery From COVID-19**	Sovereign	Brazil	USD	1,000
67	**Supporting India's Economic Recovery From COVID-19**	Sovereign	India	USD	1,000
68	**BNDES-NDB Sustainable Infrastructure Project**	Sovereign	Brazil	USD	1,200
69	**Urban, Rural and Social Infrastructure Programme**	Sovereign	Brazil	EUR	135
70	**Curitiba's Bus Rapid Transit Rideability Improvement Project**	Sovereign	Brazil	USD	75
71	**Mobile TeleSystems Cellular Network and Cloud Services Expansion**	Non-sovereign	Russia	USD	300
72	**National Non-Toll Roads Management Programme**	Sovereign	South Africa	USD	1,000

42 NDB's investment commitment is up to USD 100 million-equivalent in Indian rupees.

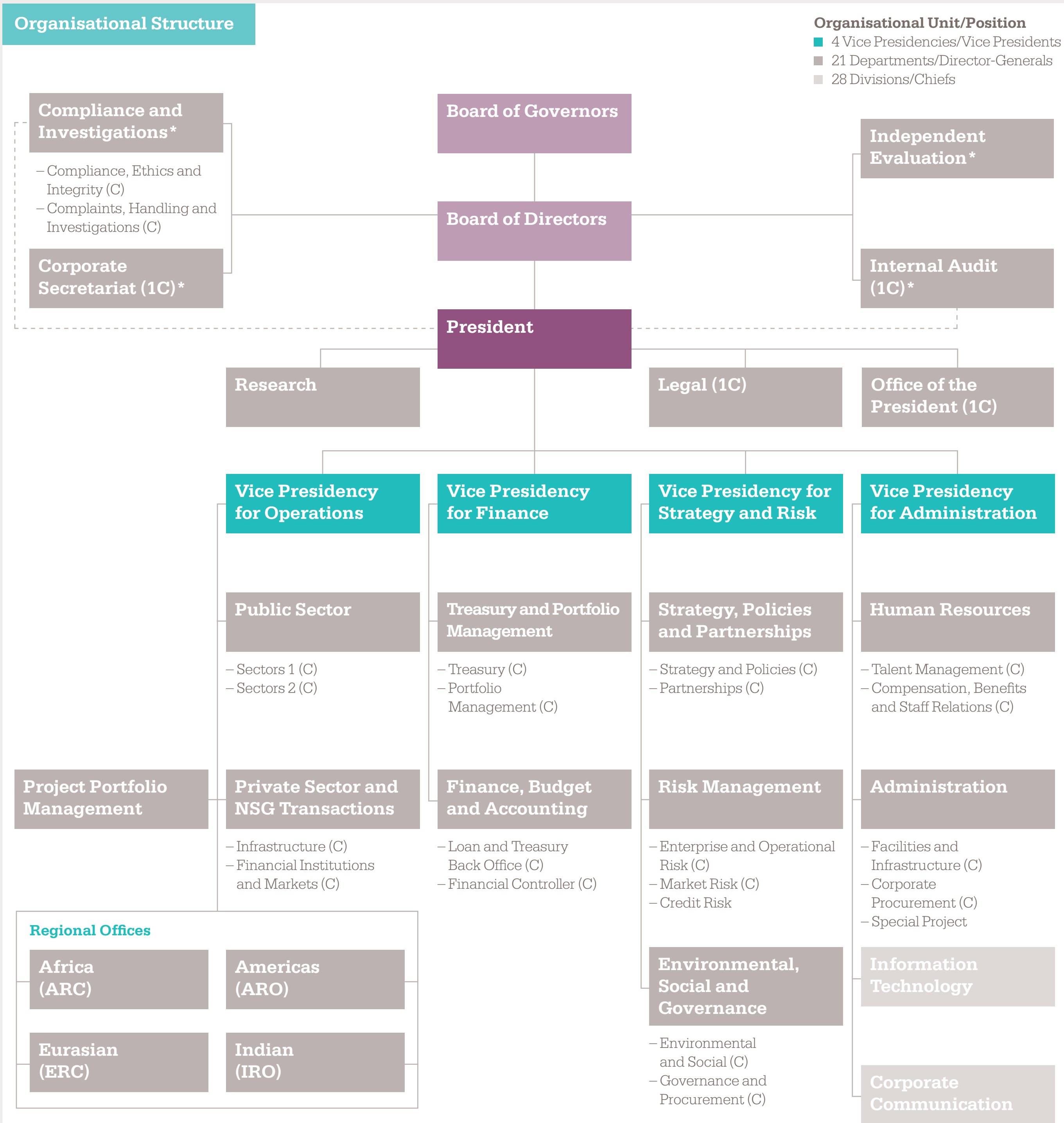
NDB's project cycle

The NDB and borrowers' actions regarding the project cycle presented below are not exhaustive and may vary due to different legal and governmental processes for sovereign-operations in different member countries or due to different project characteristics and business environment for non-sovereign operations. 'Loans' are mentioned below for simplification purposes. According to NDB's policies, the Bank's financial instruments include loans (e.g. corporate, project, senior, subordinated), guarantees, equity (includes investments in funds), and other capital market instruments as deemed necessary. These financial instruments allow for NDB's participation in a diverse span of project structures and business partnerships, including project financing, co-financing, syndicated loans, among others.

NDB project cycle

	Business development	Concept	Appraisal	CIC & Board approval	Commitment and disbursement	Monitoring
NDB's project cycle	Identify business opportunities to support members Potential projects and project pipeline aligned with NDB's mandate and strategy Assess clients' needs and NDB's value-added	Assessment of project's financial viability and development impact, including preliminary identification of environmental and social risks Indicative terms and conditions Senior management approval	Conduct project due diligence, including macro, sectoral, regulatory, environmental, social and risk assessment, technical viability Operations sub-committee endorsement Negotiations and agreement of terms and conditions	CIC approval and endorsement Board approval	Loan signing Loan effectiveness and disbursement Loan servicing	Project implementation Monitor strategic development impacts Final assessment and reporting
Borrowers – Sovereign operations	Initiate discussion with NDB Receive preliminary interest from NDB Formalise proposal with preliminary indication of sovereign guarantee and expected impacts	Provide information to NDB on expected economic, social and environmental aspects Define implementation agency and project support teams	Receive NDB's appraisal missions and provide detailed information Conduct consultations with local, regional and national stakeholders Start loan negotiations	Adjust project to NDB Board's requests if necessary Ensure approval of national instances for sovereign guarantee, including legislative approval when needed	Conduct necessary domestic financial, administrative and legislative procedures for loan signing Set up project monitoring activities and reporting structures Start receiving and servicing loans	Implement project and monitor results Send progress reports to NDB Inform NDB of any deviation from approved project and make required adjustments Final assessment and reporting
Borrowers – Non-sovereign operations	Following early assessment (including indicative pricing) and alignment with NDB's mandate, discuss project details including financial structure and instrument Conduct preliminary discussion on environment and social aspects	Provide to NDB detailed project and sponsors information Early financial assessment Indicative terms and conditions agreed	Agree with NDB on an agenda for a detailed due diligence (includes assessment of main risks and issues of the project and of its sponsors) Consultations with stakeholders Terms and conditions are confirmed, including mitigation measures for environmental and social risk (if any)	Adjust project to NDB Board's requests if necessary	Documentation is signed after loan negotiations are finalised Fulfilment of conditions precedent Disbursement is processed and received	Start project implementation and monitoring Send project progress reports to NDB Receive NDB's periodic implementation missions Terms and conditions are monitored for any deviation and adjustments are implemented as per contractual provisions Final assessment and reporting

NDB's organisational structure[43]



Note:
* Corporate Secretariat, Internal Audit Department and Compliance and Investigations Department functionally report to the Board of Directors and administratively/operationally to the President. The Independent Evaluation Office, once established, will report directly to the BoD.

43 Approved by the BoD on December 15, 2020.

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NDB's 2020 Financial Statements

Xiamen City, Fujian

NDB's Putian Pinghai Bay Offshore Wind Power Project will generate 873 million kWh per year of electricity to meet the rising power demand in Fujian province.

Financial Statements' Analysis

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

Section 1
Executive summary

Financial highlights

In 2020, the Bank continued to deliver on its mandate to contribute to global growth and development of its member countries through addressing their core development needs in sectors that range from urban development to water sanitation, clean energy and the development of smart cities. NDB increased its end-2020 portfolio of projects to USD 24.4 billion (2019: USD 14.9 billion)[44]. In response to the COVID 19 outbreak the Bank remained fully committed to supporting its member countries by raising bonds in international and domestic markets and providing emergency financing to its member countries through a USD 10.0 billion Emergency Response Programme directed to finance health, social relief and boosting economic recovery.

Financial Position

In 2020, the Bank has increased its total asset base to USD 18.8 billion (2019: USD 11.8 billion). This represents a 59% increase in total assets primarily due to growth in the NDB's treasury and loan portfolio, and additional contributions from member countries. NDB's loans and advances has increased to USD 6.6 billion (2019: USD 1.5 billion) as a result of loans provided to member countries and disbursements made to projects contributing to key areas of operations. NDB's treasury portfolio has increased to USD 10.3 billion (2019: USD 6.6 billion).

In 2020, the Bank increased its borrowings to USD 8.4 billion (2019: USD 1.6 billion). This substantial increase in borrowings is primarily due to issuances of a USD 1.5 billion three-year Euro Medium Term Note (EMTN), representing a benchmark USD-dollar bond issuance in international capital markets, and a USD 2.0 billion five-year EMTN to further support COVID emergency response programmes. The Bank made issuances in the China Interbank Bond Market of RMB 5.0 billion (USD 704 million equivalent) and RMB 2.0 billion (USD 284 million equivalent). In 2020, the Bank has made other notable issuances in these market including issuances of Euro Commercial Papers ('ECP').

Portfolio performance

The Bank remained profitable and operated within its risks limits despite the challenges experienced due to the COVID 19 pandemic. For the year ended December 31, 2020, the Bank reported an operating profit of USD 101 million (2019: USD 151 million). NDB's operating profit decreased by USD 50 million in 2020. This was primarily driven by an increase in the provision for expected credit losses and a decrease in interest income from banks resulting from the current low interest rate environment.

Section 2
Portfolio performance

Approved project portfolio

In 2020, the Bank continued to deliver on its mandate to contribute to the growth and development of its member countries by investing in infrastructure and sustainable development projects. NDB increased its net project approvals to USD 24.4 billion (2019: USD 14.9 billion), a 64 % increase in approved project portfolio from 2019. The Bank continued investing in equity fund investments bringing the cumulative volume of equity fund investments in 2020 to USD 200 million (2019: USD 100 million).

The sovereign loan portfolio continued its expansion to USD 21.0 billion (2019: USD 11.9 billion) a 76% increase mainly due to the support provided through the Banks Emergency Response Programme that is directed finance health and social relief and to contribute to boosting the economic recovery in member countries. The non-sovereign loan portfolio grew by 13% to USD 3.3 billion (2019: USD 2.9 billion). The Bank will continue to increase the complexity and the range of products it offers in order to meet the needs of member countries.

In 2020, a strong focus was placed on distributing the portfolio of loan approvals more equitably across all five member countries. This was achieved successfully with the support of the regional offices in Brazil, Russia and South Africa. The opening of the regional office in India will soon follow, thereby increasing the effectiveness of the work the Bank does in its member countries.

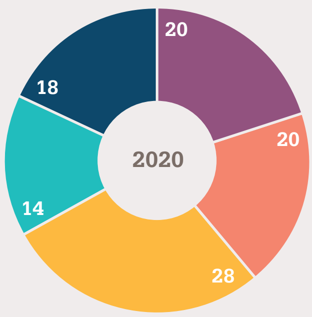
44 End-2020 portfolio of projects equals total approved projects in the period 2016-2020 net of full and partial cancellations and full repayments.

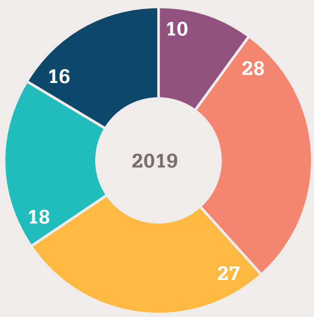
Approved project portfolio by area of operation (net of cancellations and full repayments)

USD million	As at December 31, 2020	As at December 31, 2019
Sovereign Loans	20,966	11,935
Non-Sovereign Loans	3,269	2,898
Equity Investments	200	100
Total approved project portfolio	24,435	14,933

Approved project portfolio: by country (net of cancellations and full repayments)

As at December 31
%





USD million	2020	2019
Brazil	5,011	1,521
Russia	3,343	2,716
India	6,924	4,083
China	4,814	4,218
South Africa	4,343	2,395
Total approved project portfolio	24,435	14,933

The key areas of operation, as set out in NDB's General Strategy: 2017-2021, are carefully considered during the Bank's initial project assessment leading to the final submission of projects to the BoD for approval. The Bank expanded the key areas of operation to include COVID-19 Emergency Assistance and Digital Infrastructure. The equity investment project has been classified as covering multiple key areas as, under the fund's investment strategy, a range of projects is expected to be covered. NDB embraced the concept of impact investment, bringing a range of positive and broad-based benefits to its member countries and their people.

Treasury investment portfolio

At December 31, 2020, the total investment portfolio amounted to USD 10.3 billion (2019: USD 6.6 billion), an increase of USD 3.7 billion during the 2020 financial year. The investment portfolio is aligned with the liquidity requirements of the Bank such that sufficient cash resources are available to fund the operational needs of the Bank and meet anticipated disbursement requirements. Throughout its five years of operations, NDB has been investing only with highly-rated counterparty banks and has established sound working relationships with them during this time.

Borrowings

The Bank is predominantly financed through its members' paid-in capital and from borrowings raised in the capital markets. NDB seeks to be a regular issuer in both international and local markets of its member countries with a view to establishing a strong credit history and ensuring better liquidity and diversification opportunities for investors. Seeking funding in USD-denominated instruments and other hard currencies is an important facet of NDB's funding toolkit, however, so is local currency borrowing. Raising funding in the domestic markets of its member countries allows NDB to reduce its currency mismatch risks, and also to obtain funding at attractive costs using a wide range of fundraising instruments in different markets.

During the 2020 financial year, the Bank successfully registered its second RMB Bond Programme in the China Interbank Bond Market. The Bank has been granted approval to raise up to RMB 20.0 billion in the China Interbank Bond Market within

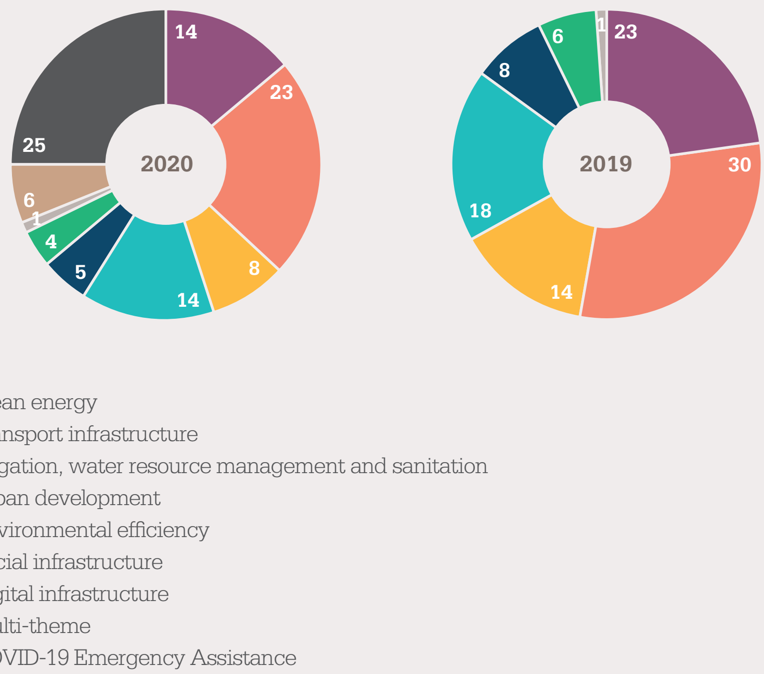
Approved project portfolio by area of operation (net of cancellations and full repayments)

As at December 31
USD million

	2020	2019
Clean energy	**3,496**	3,519
Environmental efficiency	**900**	1,200
Irrigation, water resource management and sanitation	**1,891**	2,080
Social infrastructure	**1,010**	960
Transport infrastructure	**5,736**	4,421
Urban development	**3,466**	2,653
Multi-theme	**1,566**	100
COVID-19 Emergency Assistance	**6,070**	–
Digital Infrastructure	**300**	–
Total	**24,435**	**14,933**

Approved project portfolio by area of operation

%



Borrowing programmes

Month	Name of programme	Size
International Markets		
December 2019	EMTN Programme	USD 50 billion
April 2019	ECP programme	USD 8 billion
Domestic Markets		
November 2019	RUB Programme	RUB 100.0 billion
October 2020	CNY Bond Programme	CNY 20 billion
April 2019	ZAR Bond Programme	ZAR 10 billion

two years of the Programme registration date. The proceeds of the Programme will be used to finance infrastructure and sustainable development projects in the Bank's member countries.

In 2020, the Bank has successfully issued its USD 2 billion, 5-year COVID Response Bond in the international capital markets. This is the Bank's largest-ever USD benchmark bond to date. The net proceeds of the bond issuance are being used to finance sustainable development activities, including COVID-related emergency assistance programmes. The transaction garnered notable demand from a geographically diverse investor base, and substantial participation from central banks and official institutions, which accounted for 66% of final allocations. The geographic distribution of investors of the final bond book was: Asia: 57%, EMEA: 34%, Americas: 9%.

As a result of the above borrowing initiatives, as at December 31, 2020, the borrowing portfolio of the Bank comprised of unsecured borrowings and ECP. The table below summarises the borrowing programmes the Bank has registered in international and domestic markets to date to date.

Equity

As at December 31, 2020, USD 8.1 billion (2019: USD 6.2 billion) in total paid-in capital had been received by the Bank from its member countries in accordance with the payment schedule set out in the Articles of Agreement with partial receipts relating to the seventh instalment received from Russia.

Moreover, the Bank has been consistently profitable since its inception and, as at December 31, 2020, had built up a reserve of retained earnings of USD 359 million. These reserves will be leveraged to support the Bank's operation in the execution of its mandate to mobilise resources for infrastructure and sustainable development projects for growth and development.

Section 3
Financial results

Interest Income from Banks

Interest income from banks has decreased from USD 194 million in 2019 to USD 149 million in 2020. This is primarily a result of a lower yield on USD time deposits. 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.

Interest Income from Loans and Advances

Interest income from loans and advances has increased from USD 36 million in 2019 to USD 100 million in 2020, due to higher disbursements during the year. This increase in the interest income on loans is attributable to NDB disbursing an additional 11 loans during the 2020 financial year, despite the low interest rate environment. Cumulative disbursements increased to USD 6.6 billion from USD 1.5 billion in 2019.

Interest Expense

The interest expense on bonds issued amounted to USD 54 million for the current year, an increase from USD 25 million in 2019. This is mainly due to additional issuances to fund emergency COVID loans approved in 2020 and the Panda Bond Issuance. Interest expense on note payables is up in 2020 to USD 18 million from USD 8 million in 2019. The increase relates to additional issuances that is used to fund disbursements to borrowers.

Net Fee Income

Net fee income of the Bank comprises front-end fees and commitment fees. The Bank charges a front-end fee to the borrowers on the date of the first drawdown and the income is recognised over the life of the loan. The increase in front-end fees income from USD 1 million in 2019 to USD 2 million in 2020 is attributable to the 11 projects which saw their first drawdowns during 2020.

Commitment fees are levied on the accrued portion of the undisbursed loan balance. Commitment fees recognised during the year was USD 3 million compared to USD 1 million in the financial year 2019.

General and administrative expenses and Other Expense

The growth of NDB in the 2020 financial year has resulted in general and administrative expenses increasing to USD 55 million in 2020 compared to USD 51 million the year before. In addition, an increase in bond issuance costs of USD 8 million, mainly on account of borrowing initiatives during the year.

Financial information of statement of profit or loss and other comprehensive income

As at December 31
USD million

	2020	2019	Movement
Interest income from banks	149	194	(45)
Interest income from loans and advances	100	36	64
Other Interest Income	5	1	4
Total interest income	254	231	23
Interest expense on short-term borrowings	(1)	0	(1)
Interest expense on bonds issued	(54)	(25)	(29)
Interest expense on note payables	(18)	(8)	(10)
Net interest income	181	198	(17)
Net fee income	5	2	3
Net interest income after fees	186	200	(14)
General and administrative expenses	(55)	(51)	(4)
Bond issuance costs	(9)	(1)	(8)
Impairment losses under expected credit loss model, net of reversal	(38)	(2)	(36)
Foreign exchange gains/(losses) and net (losses)/gains on financial instruments at fair value through profit or loss	17	5	12
Operating profit for the year	101	151	(50)

Financial information of statement of financial position

As at December 31
USD million

	2020	2019	Movement
Assets			
Treasury Assets	10,315	6,552	3,763
Derivative financial assets	27	5	22
Loans and advances	6,612	1,545	5,067
Paid-in capital receivables	1,885	3,714	(1,829)
Other Assets	5	5	–
Total Assets	18,844	11,821	7,023
Liabilities			
Borrowings	8,371	1,616	6,755
Derivative Financial Liabilities	98	12	86
Others	42	21	21
Total Liabilities	8,511	1,649	6,862
Equity			
Paid-in capital	10,000	10,000	–
Reserves	(26)	(86)	60
Retained earnings	359	258	101
Total Equity	10,333	10,172	161
Total Equity and Liabilities	18,844	11,821	7,023

Loan Disbursements per category

As at December 31, 2020
USD million

Category	Effective facility	Utilised facility including interest	ECL on utilised facility including interest	ECL on Unutilised loan commitments
Sovereign	**11,833**	4,768	5	3
Non-Sovereign	**2,429**	1875	26	5
Total	**14,262**	**6,643**	**31**	**8**

As at December 31, 2019
USD million

Category	Effective facility	Utilised facility including interest	ECL on utilised facility including interest	ECL on Unutilised loan commitments
Sovereign	**6,443**	832	–	–
Non-Sovereign	**2,016**	718	5	1
Total	**8,459**	**1,550**	**5**	**1**

Loan Disbursements by Country

As at December 31, 2020
USD million

Country	Effective facility	Utilised facility including interest	ECL on utilised facility including interest	ECL on Unutilised loan commitments
Brazil	833	516	10	1
India	5,092	2,056	3	2
Russia	1,968	994	1	0
China	4,811	1,746	1	1
South Africa	1,558	1,331	16	4
Total	**14,262**	**6,643**	**31**	**8**

As at December 31, 2019
USD million

Country	Effective facility	Utilised facility including interest	ECL on utilised facility including interest	ECL on Unutilised loan commitments
Brazil	550	351	3	–
India	1,980	398	–	–
Russia	2,216	377	1	–
China	3,233	293	–	–
South Africa	480	131	1	1
Total	**8,459**	**1,550**	**5**	**1**

Foreign Exchange Gains/(Losses) and Net (Losses)/Gains on Financial Instruments at Fair Value through Profit or Loss
At the end of the 2020 financial year, foreign exchange losses and fair value gains amounted to USD 17 million (2019: USD 5 million). This movement predominantly relates to the following:

- Foreign exchange gains of USD 208 million (2019: USD 17 million losses) primarily reflects a strengthening RMB/USD exchange rate and increase in the foreign currency exposures primarily in the form of loans and deposits; and

- Net losses on financial instruments at fair value through profit or loss of USD 191 million in 2020 (2019: USD 22 million gains) which was driven by fair value adjustments on the liabilities and exchange rate fluctuations (which is reported at fair value through profit and loss).

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 and Panda Bond issuance.

Impairment Provision
The Bank recognises impairment losses on treasury deposits, loans and advances and treasury bonds to reflect any Expected Credit Losses (ECL) in accordance with IFRS 9. The impairment provision recognised in the income statement of 2020 amounted to USD 38 million, this represents a USD 36 million increase from 2019. This increase is primarily attributable to the first time recognition of impairment losses on the treasury portfolio, in addition to two loans having been transferred to stage 2 due to a significant increase in credit risk.

Other changes in the impairment allowance relate to changes in probability of default, increase in the number of disbursements in 2020, as well as the changes in projected draw-down for the financial year 2020. Furthermore, the impairment provision took into consideration the probability of default primarily due to changes regarding forward looking information.

Treasury Assets
The investment portfolio is aligned with the liquidity requirements of the Bank such that sufficient cash resources are available to fund the operational needs of the Bank and meet anticipated disbursement requirements.

In 2020, the treasury portfolio of USD 10.3 billion (2019: USD 6.6 billion) consists of treasury assets placed in current accounts, time deposits, commercial bonds, money market deposits, policy bonds and reverse repos. Movement in the treasury portfolio mainly relates to the payment of capital from member countries relating to the 6th instalment, an early receipt from Russia relating to the 7th instalment and additional issuances of bonds and ECPs.

Treasury assets (current account and time deposits) are mainly invested in highly rated banks in Mainland China, Hong Kong and Singapore. Investments in bonds measured at amortised cost relate to the Bank's investments in a commercial bank bond denominated in RMB and a policy bank-bond denominated in RMB.

Loans and Advances
Supported by paid-in capital from its member countries and access to capital markets through successful issuances, the Bank effectively mobilised funds for its disbursements during 2020. As at December 31, 2020, cumulative loan disbursements were USD 6.6 billion (2019: USD 1.5 billion). This can be attributed to an additional 11 loans disbursing for the first time, which brought the total number of disbursed loans to 36.

Borrowings
The Bank is predominantly financed through its members' paid-in capital and from borrowings raised in the capital markets. The borrowing portfolio consists of bonds issued, euro commercial papers and other short term borrowings.

During 2020 financial year, NDB successfully issued the following:

- Inaugural USD 1.5 billion Euro Medium Term Note;
- CNY 5.0 billion (USD 704 million) Corona virus combating bond;
- CNY 2.0 billion (USD 284 million) bond;
- USD 2.0 billion Euro Medium Term Note; and
- USD 50 million Euro Medium Term Note.

As at 31 December 2020, the total fair value of the Bank's bond portfolio was USD 5.6 billion (2019: USD 883 million) as a result of the additional issuances. NDB's bond portfolio value at December 31, 2020 included fair value losses of USD 115 million (2019: USD 20 million gains) which can be attributed to changes in market interest rates during the financial year.

Additionally, in 2020, the Bank drew from the ECP Programme that granted the Bank access to short-term funding in the capital markets to cover liquidity management requirements. At December 31, 2020 the nominal value of the outstanding balances for note payables amounted to USD 2.8 billion (2019: USD 623 million).

Equity fund investments
As at December 31, 2020, the Bank has approved two equity investments in Brazil and India amounting to USD 200 million (2019: 100 million). For 2020, the Bank has received a call for costs amounting to USD 1.8 million for the investment in Brazil.

Equity
As at December 31, 2020, the total paid-in capital received by the Bank amounted to USD 8.1 billion (2019: USD 6.2 billion). Russia made a partial payment in anticipation of its 7th instalment of paid-in capital, due on January 3, 2022.

Equity

USD million

	Cumulative paid-in capital received as at Dec 31, 2020	Cumulative paid-in capital received as at Dec 31, 2019
Brazil	**1,358**	1,300
India	**1,780**	1,300
Russia	**1,650**	1,000
China	**1,650**	1,300
South Africa	**1,650**	1,300
Total	**8,088**	**6,200**

Section 4
Risk management

Risk Governance

NDB adopts a conservative and integrated approach to Risk Management, which supports the strategic decision making process of the institution. The Bank consistently conducts its activities within an 'Enterprise Risk Management and Risk Appetite Framework' (the Framework) established by its BoD. This Framework consolidates and reveals the risk preference of NDB, fostering consistency, accountability and transparency of the business decisions in the Bank, institutionalising a strong risk culture across the institution.

In order to safeguard its capital base, NDB follows 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 risk governance structure of the Bank is based on 'three-lines of defence'. The Framework provides a comprehensive description of the Bank-wide risk management principles and risk appetite parameters guiding the operations of the Bank. The risk appetite parameters guide both strategic planning and day-to-day tactical decision making, thereby avoiding excessive risk taking and encouraging the development of effective controls to protect the key resources of the Bank. While the Framework defines various risk categories, bank-level appetite and limits, respective risk policies define risk limits at a granular level. Roles and responsibilities, ownership for each category of risk have been clearly defined in the Framework and respective policies. A consolidated risk reporting mechanism providing portfolio view and individual category of risk view has been established. The risk report is submitted to the ARC Committee via the Finance Committee.

Capital Adequacy

The main objective of the capital management framework is to ensure that the Bank maintains capital sufficiency and flexibility against the inherent risks in daily business and can withstand unexpected potential losses given a certain risk preference. The Bank's management has established appropriate policies and procedures to manage the capital adequacy from a risk perspective. Thus, NDB monitors capital adequacy within a capital management framework which seeks to ensure that the Bank's capital is aligned with the overall strategy of the Bank, as laid down by the BoG, budgets and financial risk associated with its business and to ensure sufficient capital exists to cover the risks arising from the business.

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, 2020 is 50% (2019: 80%); well above the limit of 25%.

The decrease in the ratio relates to the increase in loan and other exposures, partially offset by the receipt in paid-in capital. 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 37.4% for 2020, which is well within the Bank's management action trigger of 95% and has increased since 2019 due to additional loans and other exposures.

Capital Utilisation Ratio

Capital Utilisation Ratio (CUR) measures the Required Risk capital, based on Basel standardised (Credit risk, market risk and operational risk) over capital (received paid-in capital, reserves and surplus). The CUR is 9.76% in 2020, higher than 4.3% observed in 2019. As expected, the CUR has increased with increase in loan and other exposures, partially offset by receipts of paid-in capital.

Interest Rate Risk

The Bank strives to minimise its exposure to losses resulting from interest rate risk by matching the tenor and interest rates of its assets with those of the corresponding funding sources, and the Bank uses derivatives to offset interest rate mismatches.

Interest rate risk results from interest rate variations that affect all balance sheet items which valuation is dependent on interest rates, whether they are fixed or variable. The Bank applies a duration gap limit of 5 years as its primary measure to contain financial risk from interest rate risk exposure, and uses Value-at-Risk (VaR) calculations to monitor interest rate risk exposure. The duration gap as of end of 2020 was 0.36 year (2019: 0.35 year).

Exchange Rate Risk

NDB strives to minimise its exposure to losses resulting from exchange rate risk by matching the currency of its assets with the currency of the corresponding funding sources, and also uses derivatives to offset currency mismatches. The Bank measures the net open position of aggregated non-USD currencies against a limit of USD 20.0 million. As at the end of 2020, the net aggregate exposure was USD 1.2 million or 5.9 % of the limit (2019: USD 7.3 million or 36.5% of the limit). The Bank uses VaR calculations to monitor exchange rate risk exposure.

The Bank continues to register bond programmes in off-shore and in member countries' markets. This has enabled the Bank to meet the demand for local currency financing of its members and manage its exchange rate risk by observing currency matching principles.

Liquidity Risk

The Bank has a prudent approach to liquidity management and maintains an extremely strong liquidity position in very high-quality investments both in the short and long term.

Expected USD cash outflows relating to project loan disbursements in the period following the financial year 2020 were sufficiently covered by cash inflows from deposits and other high-quality investments.

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 2020 financial year, the weighted average maturity of 0.4 years is slightly larger than the maturity at the end of the previous reporting period of 0.3 years.

The primary liquidity ratio decreased since 2019 and shows a converging trend towards the Bank's indicative target range of 110% and 150%, in order to balance risks and opportunity costs. Further, the Bank's access to capital markets provides an additional protection in circumstances of extreme liquidity stress.

Capital adequacy ratios

As at December 31

Ratio	Metric	2020	2019
Equity to assets	%	**50**	80
Limitations on operations	%	**37.4**	23.8
Capital utilisation ratio	%	**9.76**	4.30

Credit Risk

Sovereign and Non-Sovereign Credit Risk Measurement

The credit quality of the Bank's loan portfolio remains investment grade. To measure sovereign credit risk, the Bank uses data from rating agencies. During the course of 2020, South Africa was downgraded by Moody's to Ba2 from Baa3 with negative outlook, by Fitch to BB- from BB+ with negative outlook and by S&P to BB- from BB with stable outlook. Furthermore, Moody's downgraded India's sovereign rating to Baa2 (negative outlook) from Baa3 (negative outlook). The Bank has updated the rating criteria applicable to sovereign transactions from the highest rating to the average rating approach, in line with the updated Credit Risk Management Policy approved in December, 2020. As at December 31, 2020, the Weighted Average Risk Rating (WARR) of the sovereign loan portfolio has come down to BBB- as against BBB+ at the end of the financial year 2019 and remains within the investment grade band.

To measure non-sovereign credit risk, the Bank uses a combination of credit risk data from rating agencies and its own internal credit assessment, which is based on both financial and non-financial factors. As at December 31, 2020, the Bank has approved USD 3.27 billion non-sovereign loans in Brazil, Russia, India and South Africa with a WARR of BBB- (2019: USD 2.90 billion and WARR of BBB-).

Risk Analysis of Total Projects Portfolio

The WARR of the total loan portfolio for the 2020 financial year remains within investment grade at BBB-, which is two notches below the previous year's rating mainly reflecting the updates in the ratings of the member countries and increased allocation to lower-rated sovereigns. As at the end of the 2020 financial year, two loans representing approvals of USD 378.4 million have been put into the watch list. The Bank has approved two equity fund investments of USD 100 million each to Patria Infrastructure Fund IV and to National Investment and Infrastructure Fund: Fund of Funds – I.

Operational Risk and Internal Control

Operational risk is the risk of loss arising from failure or inadequacy of systems and controls, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

The Bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. This comprises governance structures, policies, processes

Liquidity ratios

As at December 31

Ratio	Metric	2020	2019
Primary Liquidity Ratio (1-year)	%	125	163

Total approved sovereign projects by country[45]

	As at December 31, 2020		As at December 31,2019	
Member Country	Approved sovereign loans portfolio USD million	WARR	Approved sovereign loans portfolio USD million	WARR
Brazil	4,111	BB-	621	BB
Russia	1,752	BBB-	1,500	BBB
India	6,524	BBB-	3,783	BBB
China	4,814	A+	4,218	A+
South Africa	3,765	BB-	1,183	BBB-
Total Approved Sovereign Projects	20,966	BBB-	11,935	BBB+

Total approved projects portfolio by country[46]

	As at December 31, 2020		As at December 31, 2019	
Country	Total approved projects portfolio USD million	WARR	Total approved projects portfolio USD million	WARR
Brazil[47]	5,011	BB	1,521	BB
Russia	3,343	BBB	2,716	BBB
India	6,924	BBB-	4,083	BBB
China	4,814	A+	4,218	A+
South Africa	4,343	BB-	2,395	BBB-
Total Approved Loans	24,435	BBB-	14,933	BBB+

45 Approved sovereign loans portfolio is total approved sovereign loans net of full and partial cancellations and full repayments.
46 Approved projects portfolio is total approved loans net of full and partial cancellations and full repayments.
47 Includes a Private Equity investment.

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.

The Internal Control Framework of the Bank includes the roles and responsibilities of various divisions within the three-lines of defence, internal-checks embedded in payments and decision making process, documentation of risks and controls. The Risk division along with other divisions had initiated design and rollout of Internal Control Framework (ICF) for the Bank. The Bank has established a mechanism for documentation of processes and controls in a structured manner. The Policies are reviewed and recommended by the Board Level Committees and approved by the Board.

NDB has established a Business Continuity Management and Disaster Recovery framework, in line with its risk profile, criticality of activities and the cloud based computing approach adopted by the Bank. The Bank had successfully operated in business continuity mode in 2020 and no critical activities were impacted.

Treasury Business Credit Risk Management

As at December 31, 2020, there were no breaches of treasury credit limits (concentration limits and counterparty limits). The credit quality of the Bank's treasury investment portfolio as at December 31, 2020 of USD 10.2 billion (2019: USD 6.3 billion) remained concentrated in the upper end of the credit spectrum since the counterparties for investments (i.e. deposits and bonds) are mostly highly rated banks.

The Weighted Average Risk Rating (WARR) for the investment portfolio is A+ (equivalent of A1). The weighted average remaining maturity is 6.3 months.

None of the counterparties exceeded the concentration limit that aims to prevent excessive concentration of the Bank's investments with any individual counterparty.

As of December 31, 2020, all swap transactions are transacted with well rated counterparties (A- or above).

2020 Annual Financial Statements

for the Year Ended December 31, 2020

Rajasthan Water Sector Restructuring Project, India

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, 2020, 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, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs').

Key audit matters

Key audit matter is the matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. The matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

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.

Key audit matter	How our audit addressed the key audit matter
Measurement of expected credit loss ('ECL') of loans and advances	
We identified the measurement of ECL for the Bank's loans and advances as a key audit matter due to the significance of these assets to the Bank's financial statements and the significant management judgement and estimation required in the measurement. As disclosed in Note 4 to the financial statements, significant management judgement and estimation required in the measurement of ECL includes assessing whether the credit risk of an asset has significantly increased, using appropriate models and assumptions, determining the key inputs including probability of default ("PD") and loss given default ("LGD"), selecting forward-looking scenarios and their probability weighting. As at December 31, 2020, the Bank held loans and advances to customers of USD 6,643 million, less impairment allowance of USD 31 million as disclosed in Note 20 to the financial statements.	Our procedures in relation to management's measurement of ECL for loans and advances included: • Evaluating key controls of the management over the measurement of ECL; • Evaluating the appropriateness of the ECL model, and the critical assumptions and parameters used in the models, in particular PD, LGD and weighting of forward-looking scenario; • Evaluating the appropriateness of the ECL model, and the critical assumptions and parameters used in the model, including PD, LGD and weighting of forward-looking scenarios; • On a sample basis, checking the weighted calculation of the ECL for the selected loans and advances.

Independent Auditor's Report – continued

Other information

Management of the Bank is responsible for the other information. The other information obtained at the date of this auditor's report is 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 on the other information obtained prior to the date of this auditor's report, 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 of the financial statements that give a true and fair view 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, 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.

We also provide the Board of Governors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Board of Governors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte Touche Tohmatsu CPA LLP

Deloitte Touche Tohmatsu
Certified Public Accountants LLP
Shanghai, People's Republic of China

March 30, 2021

Statement of Profit or Loss and other Comprehensive Income

For the year ended December 31, 2020

Expressed in millions of U.S. Dollars	Notes	Year ended December 31, 2020	Year ended December 31, 2019
Interest income	7	**254**	231
Interest expense	7	**(73)**	(33)
Net interest income	7	**181**	198
Net fee income	8	**5**	2
Net (losses)/gains on financial instruments at fair value through profit or loss	9	**(191)**	22
		(5)	222
Staff costs	10	**(41)**	(33)
Other operating expenses	11	**(14)**	(18)
Impairment losses under expected credit loss model, net of reversal	5	**(38)**	(2)
Foreign exchange gains/(losses)		**208**	(17)
Other expense	12	**(9)**	(1)
Operating profit for the year		**101**	151
Unwinding of interest on paid-in capital receivables		**49**	72
Profit for the year		**150**	223
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Fair value gain on debt instruments at fair value through other comprehensive income		**1**	–
Impairment loss for debt instruments at fair value through other comprehensive income included in profit or loss		**–***	–
Other comprehensive income for the year		**1**	–
Total comprehensive income for the year		**151**	223

* Less than United States dollar ("USD") half a million.

Statement of Financial Position

As at December 31, 2020

Expressed in millions of U.S. Dollars	Notes	As at December 31, 2020	As at December 31, 2019
Assets			
Cash and cash equivalents	13	**2,193**	1,023
Due from banks other than cash and cash equivalents	14	**6,762**	5,495
Derivative financial assets	15	**27**	5
Financial assets held under resale agreements	16	**66**	–
Financial assets at fair value through profit or loss	17	**400**	–
Debt instruments at fair value through other comprehensive income	18	**131**	–
Debt instruments measured at amortised cost	19	**763**	34
Loans and advances	20	**6,612**	1,545
Paid-in capital receivables	21	**1,885**	3,714
Right-of-use assets		**–***	–*
Property and equipment	22	**1**	1
Intangible assets	23	**1**	2
Other assets	24	**3**	2
Total assets		**18,844**	11,821
Liabilities			
Derivative financial liabilities	15	**98**	12
Financial liabilities designated at fair value through profit or loss	25	**5,556**	883
Borrowings	26	**–**	110
Note payables	27	**2,815**	623
Lease liabilities		**–***	–*
Contract liabilities	28	**28**	15
Other liabilities	29	**14**	6
Total liabilities		**8,511**	1,649
Equity			
Paid-in capital	30	**10,000**	10,000
Reserves	31	**(26)**	(86)
Retained earnings		**359**	258
Total equity		**10,333**	10,172
Total equity and liabilities		**18,844**	11,821

* Less than United States dollar ("USD") half a million.

The annual financial statements on pages 94 to140 were approved and authorised for issue by the Board of Governors on March 30, 2021 and signed on their behalf by:

Marcos Prado Troyjo
President

Leslie Warren Maasdorp
Chief Financial Officer

Paritosh Pandit
Chief Financial Controller

Statement of Changes in Equity
For the year ended December 31, 2020

Expressed in millions of U.S. Dollars	Paid-in capital	Capital reserve	Revaluation reserve	Other reserves	Retained earnings	Total
As at January 1, 2020	**10,000**	–	–	**(86)**	**258**	**10,172**
Operating profit for the year	–	–	–	–	**101**	**101**
Other comprehensive income for the year	–	–	**1**	–	–	**1**
Unwinding of interest on paid-in capital receivables for the year	–	–	–	–	**49**	**49**
Total comprehensive income for the year	–	–	**1**	–	**150**	**151**
Impact of early payment on paid-in capital receivables (Note 21)	–	–	–	**10**	–	**10**
Special contribution from founding member	–	–*	–	–	–	–*
Reclassification of unwinding of interest arising from paid-in capital receivables	–	–	–	**49**	**(49)**	–
As at December 31, 2020	**10,000**	**–***	**1**	**(27)**	**359**	**10,333**

Expressed in millions of U.S. Dollars	Paid-in capital	Other reserves	Retained earnings	Total
As at January 1, 2019	10,000	(162)	107	9,945
Operating profit for the year	–	–	151	151
Unwinding of interest on paid-in capital receivables for the year	–	–	72	72
Total comprehensive income for the year	–	–	223	223
Impact of early payment on paid-in capital receivables (Note 21)	–	4	–	4
Reclassification of unwinding of interest arising from paid-in capital receivables	–	72	(72)	–
As at December 31, 2019	10,000	(86)	258	10,172

* Less than United States dollar ("USD") half a million.

Statement of Cash Flows
For the year ended December 31, 2020

Expressed in millions of U.S. Dollars	Year ended December 31, 2020	Year ended December 31, 2019
Operating activities		
Profit for the year	**150**	223
Adjustments for		
Interest expense	**73**	33
Interest income from debt instruments measured at amortised cost	**(3)**	(1)
Interest income from debt instruments at fair value through other comprehensive income	**–***	–
Depreciation and amortisation	**2**	1
Unrealised losses/(gains) on financial instruments	**181**	(18)
Unwinding of interest on paid-in capital receivables	**(49)**	(72)
Impairment losses under expected credit loss model, net of reversal	**38**	2
Exchange (gains)/losses on debt instruments at amortised cost	**(5)**	1
Exchange (gains)/losses on lease liabilities	**–***	–*
Debt issuance cost	**9**	1
Operating cash flows before changes in operating assets and liabilities	**396**	170
Net increase in due from banks	**(1,271)**	(694)
Net increase in loans and advances	**(5,086)**	(913)
Net increase in financial assets held under resale agreements	**(66)**	–
Net increase in financial assets at fair value through profit or loss	**(400)**	–
Net increase in other assets	**(1)**	(1)
Net increase in other liabilities and contract liabilities	**7**	7
Interest paid on bonds and borrowings	**(27)**	(14)
Interest paid on financial assets sold under repurchase agreements	**–***	–
Interest paid on note payables	**(15)**	(3)
Interest paid on lease liabilities	**–***	–*
Interest received on debt instruments measured at amortised cost	**2**	1
Net Cash used in operating activities	**(6,461)**	(1,447)

* Less than United States dollar ("USD") half a million.

Statement of Cash Flows – continued

For the year ended December 31, 2020

Expressed in millions of U.S. Dollars	Year ended December 31, 2020	Year ended December 31, 2019
Investing activities		
Purchase of debt instruments measured at amortised cost	**(771)**	(75)
Proceeds from redemption of debt instruments measured at amortised cost	**47**	40
Purchase of financial assets at fair value through profit or loss	**(2)**	–
Purchase of debt instruments at fair value through other comprehensive income	**(130)**	–
Purchase of property and equipment and intangible assets	**(1)**	(2)
Net cash used in investing activities	**(857)**	**(37)**
Financing activities		
Paid-in capital received	**1,888**	1,209
Contribution from founding member	**–***	–
Proceeds from short-term borrowings	**250**	110
Proceeds from issuance of bonds	**4,530**	448
Proceeds from issuance of note payables	**5,527**	1,085
Repayments of short-term borrowings	**(360)**	–
Repayments from note payables	**(3,338)**	(467)
Payment of issuance cost of bond	**(9)**	(1)
Payment of issuance cost on note payables	**–***	–*
Repayments of lease liabilities	**–***	–*
Net cash from financing activities	**8,488**	2,384
Net increase in cash and cash equivalents	**1,170**	900
Cash and cash equivalents at the beginning of the year	**1,023**	123
Cash and cash equivalents at the end of the year	**2,193**	1,023
Interest received	**265**	193
Interest paid	**(42)**	(17)

* Less than United States dollar ("USD") half a million.

Notes to the Annual Financial Statements
For the year ended December 31, 2020

1. General information

The New Development Bank (the 'Bank') was established on the signing of the Agreement on the New Development Bank (the 'Agreement') on 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. The Bank has established the Africa Regional Center in Johannesburg, Americas Regional Office in São Paulo and Eurasian Regional Centre in Moscow.

According to the Agreement, the initial authorised capital of the Bank is USD 100 billion and the initial subscribed capital of the Bank is USD 50 billion. Each founding member shall initially subscribe 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 seven 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.

2. Application of international financial reporting standards

For the purpose of preparing 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.

Amendments to IFRSs that are mandatorily effective for the current year
In the current year, the Bank has applied the *Amendments to References to the Conceptual Framework in IFRS Standards* and the following amendments to IFRSs issued by the IASB for the first time, which are mandatorily effective for the annual period beginning on or after January 1, 2020 for the preparation of the Bank's financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

The application of the *Amendments to References to the Conceptual Framework in IFRS Standards* and the amendments to IFRSs in the current year had no material impact on the Bank's financial positions and performance for the current and prior years and/or disclosures set out in these financial statements.

2. Application of international financial reporting standards – continued

New and amendments to IFRSs in issue but not yet effective
The Bank has not early adopted the following new and amendments to IFRSs that have been issued but have not yet become effective:

IFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to IFRS 16	Covid-19-Related Rent Concessions[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform - Phase 2[5]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[2]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018-2020[2]

1 Effective for annual periods beginning on or after January 1, 2023.
2 Effective for annual periods beginning on or after 1 January, 2022.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after June 1, 2020.
5 Effective for annual periods beginning on or after January 1, 2021.

The Bank anticipates that the application of all above new and amendments to IFRSs will have no material impact on the financial statements in the foreseeable future.

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 value 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. For the purpose of preparation of the annual financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. For the year ended December 31, 2020 the Bank has changed the unit of presentation from USD thousand to USD million. Therefore, the comparative figures in these financial statements are different from amounts presented in the financial statements for the year ended December 31, 2019.

The management of the Bank has, at the time of approving the annual financial statements, a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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 accounted for in accordance with IFRS 16 *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*.

More details about fair value hierarchy are provided in Note 6.

Notes to the Annual Financial Statements
For the year ended December 31, 2020

3. Significant accounting policies and basis of preparation – continued

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.

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

Revenue
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 or 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.

A contract liability represents the Bank's obligation to transfer goods or services to a customer for which the Bank has received consideration (or an amount of consideration is due) from the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method
The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Bank's performance in transferring control of goods or services.

Interest income
Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments at fair value through other comprehensive income.

For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

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. They are subsequently amortised over the period of the contract when they satisfy the performance obligation.

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

3. Significant accounting policies and basis of preparation – continued

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Property and equipment
Property and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Property and equipment are stated in the statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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 less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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

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

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

Internally generated intangible assets – research and development expenditure
Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:
- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development
- And to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

Notes to the Annual Financial Statements
For the year ended December 31, 2020

3. Significant accounting policies and basis of preparation – continued

Intangible assets – continued
Internally generated intangible assets – research and development expenditure – continued

The amount initially recognised for internally generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally -generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible asset are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as an intangible assets that are acquired separately.

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

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

IT software	5 years

Leases
Definition of a lease
A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Bank assesses whether a contract is or contains a lease based on the definition under IFRS 16 *Leases* at inception or modification date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee
Allocation of consideration to components of a contract
For a contract that contains a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets
The Bank applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option.

The Bank also applies the recognition exemption for lease of low-value assets. Leases of which the underlying lease asset is valued lower than USD 5,000 are considered as low-value assets.

Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

3. Significant accounting policies and basis of preparation – continued

Leases – continued

As a lessee – continued

Right-of-use assets

The cost of right-of-use assets include:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date, less any lease incentives received;
- Any initial direct costs incurred by the Bank; and
- An estimate of costs to be incurred by the Bank in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Except for short-term leases and leases of low value assets, the Bank recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Bank leases various buildings for its operations and presents right-of-use assets as a separate line item on the statement of financial position.

Lease liabilities

At the commencement date of a lease, the Bank recognises and measures the lease liability at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- Fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the Bank under residual value guarantees;
- The exercise price of a purchase option if the Bank is reasonably certain to exercise the option; and
- Payments of penalties for terminating a lease, if the lease term reflects the Bank exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Bank presents lease liabilities as a separate line item on the statement of financial position.

Lease modifications

The Bank accounts for a lease modification as a separate lease if:

- The modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- The consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Bank remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Bank accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Notes to the Annual Financial Statements

For the year ended December 31, 2020

3. Significant accounting policies and basis of preparation – continued

Impairment on property and equipment, right-of-use assets and intangible assets other than financial assets

At the end of the reporting period, the Bank reviews the carrying amounts of its property and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property and equipment, right-of-use assets and intangible assets are estimated individually. 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.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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 (or a cash-generating unit) 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. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Bank compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) 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 or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

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, due from banks other than cash and cash equivalents, loans and advances, paid-in capital receivables, financial assets held under resale agreements, debt instruments measured at amortised cost, debt instruments at fair value through other comprehensive income ('FVTOCI'), other receivables, financial assets at fair value through profit or loss, note payables, other payables measured at amortised cost, derivative financial assets/liabilities and bonds designated at fair value through profit or loss ('FVTPL').

Financial assets and financial liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 *Revenue from Contracts with Customers*. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

3. Significant accounting policies and basis of preparation – continued

Financial instruments – continued

Initial recognition and measurement – continued

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Classification and subsequent measurement of financial instruments

Financial assets

The Bank classifies its financial assets under IFRS 9 *Financial Instruments* depending on the Bank's business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

Financial assets measured at amortised cost

The Bank classifies an asset measured at amortised cost when the following conditions have been met:
- The financial asset is held within a business model whose objective to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI') on the principal amount outstanding.

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

Financial assets classified as at FVTOCI

The Bank classifies debt instruments at FVTOCI if they are held within a business model whose objective is achieved by both selling and collecting contractual cash flows and the contractual terms of financial asset give rise on specified dates to 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. Impairment allowances are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts of these debt instruments. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Financial assets at FVTPL

All other financial assets are subsequently measured at FVTPL, except that at the date of 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.

A financial asset is held for trading if:
- It has been acquired principally for the purpose of selling in the near term; or
- On initial recognition it is a 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 designated and effective as a hedging instrument.

In addition, the Bank may irrevocably designate a financial asset that is required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

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. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'net gains on financial instruments at fair value through profit or loss' line item.

Notes to the Annual Financial Statements
For the year ended December 31, 2020

3. Significant accounting policies and basis of preparation – continued

Financial instruments – continued
Classification and subsequent measurement of financial instruments – continued
Financial assets – continued
Equity instruments designated as at FVTOCI
Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings. Dividends from these investments in equity instruments are recognised in profit or loss when the Bank's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

Financial liabilities and equity
Classification as debt or equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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.

Financial liabilities
All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 *Business Combinations* applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is 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 or a financial guarantee contract.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated at FVTPL upon initial recognition if:
- It eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL; 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.

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

The Bank applies the fair value measurement option to the bonds issued in 2016, 2019 and 2020 respectively to reduce the measurement or recognition inconsistency resulting from the economically related interest rate swap and cross currency swap with the same notional amount in total.

3. Significant accounting policies and basis of preparation – continued

Financial instruments – continued
Classification and subsequent measurement of financial instruments – continued
Financial liabilities and equity – continued
Financial liabilities measured at amortised cost
Other financial liabilities are subsequently measured at amortised cost, using the effective interest method.

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, cross currency swaps and forwards. Further details of derivative financial instruments are disclosed in Note 15.

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

Impairment
The Bank performs impairment assessment under expected credit loss ('ECL') model on financial assets and items which are subject to impairment assessment under IFRS 9, such as loans and advances, debt instruments measured at amortised cost, debt instruments at FVTOCI, financial assets held under resale agreements, due from banks other than cash and cash equivalents, paid-in capital receivables, loan commitments and other receivables. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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 and loan commitments 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.

The disclosure regarding significant increases in credit risk, definition of default and credit-impaired financial assets are detailed in Note 5.

Notes to the Annual Financial Statements
For the year ended December 31, 2020

3. Significant accounting policies and basis of preparation – continued

Financial instruments – continued
Measurement of ECL
The measurement of ECL is a function of the probability of default, loss given default ('LGD') (i.e. the magnitude of the loss if there is a default) and the exposure at default ('EAD'). The assessment of the probability of default and LGD 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.

Except for investments in debt instruments that are measured at FVTOCI and loan commitments, the Bank recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of due from banks other than cash and cash equivalents, loans and advances and debt instruments measured at amortised cost where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in other comprehensive income and accumulated in the debt instrument revaluation reserve without reducing the carrying amount of these debt instruments. Such amount represents the changes in the debt instrument revaluation reserve in relation to accumulated loss allowance.

Write off policy
The Bank writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of other assets, when the amounts are over 180 days past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Bank's recovery procedures, taking into account legal advice where appropriate. A write off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

Derecognition of financial instruments
The Bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers its rights to the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the carrying amount of the financial asset derecognised and the consideration received and receivable is recognised in profit or loss. On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in FVTOCI reserve is reclassified to profit or loss. On derecognition of an investment in equity instrument which the Bank has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is not reclassified to profit or loss, but is transferred to retained earnings.

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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

3. Significant accounting policies and basis of preparation – continued

Financial instruments – continued

Net gains/loss on financial assets and liabilities designated at FVTPL

Net gains/ loss on financial instruments at FVTPL represents non-trading derivatives held for risk management purposes used in economic hedge relationship but not qualifying for hedge accounting relationships, financial assets and financial liabilities designated as at FVTPL and also non-trading assets measured at FVTPL, as required by or elected under IFRS 9 *Financial Instruments*. The line item includes fair value changes, interest, dividends and foreign exchange differences.

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.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

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 also be 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 cash, within three months and are subject to an insignificant risk of changes in value.

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 recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated after initial recognition.

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

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.

Measurement of the ECL allowance for loans and advances and loan commitments

The measurement of the ECL allowance for the Bank's loans and advances 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 weighting of forward-looking scenarios for each type of product.

Valuation of derivative contracts and bonds designated at FVTPL

Fair values of the derivative contracts 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 of the bonds designated at FVTPL 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 are 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.

5. Financial risk management

Overview

The Bank's major financial instruments include debt investments, borrowings, and loans and advances. Details of the financial instruments are disclosed in respective notes.

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 specialist 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 namely: credit risk, liquidity risk and market risk, which comprises exchange rate risk, interest rate risk and other price risk.

Credit risk

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

According to the nature of the Bank's business, the principal sources of credit risks are:
(i) credit risk in its sovereign operations;
(ii) credit risk in its non-sovereign operations; and
(iii) obligors' 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 concentration limits would apply to exposures to single jurisdiction, sector, obligor and product.

The Bank mainly relies on external credit rating results 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.

In case a loan has neither a sovereign guarantee nor an external credit rating, the Bank uses an internal credit rating taking into account specific project, sector, macro and country credit risks. The Risk Division obtains and uses the latest rating result of the obligors to measure credit risk profile of the Bank. The Risk Division of the Bank monitors the overall credit risk of the Bank on a periodic basis.

A summary of rating grade that is being used by the Bank is as below:
- Senior investment grade: broadly corresponds with Standard & Poor's ratings of AAA to A- from global rating agencies or the Bank's internal credit rating.
- Investment grade: broadly corresponds with Standard & Poor's ratings of BBB+ to BBB- from global rating agencies or the Bank's internal credit rating.
- Sub-investment grade: broadly corresponds with Standard & Poor's ratings of BB+ to BB but not including defaulted or impaired from global rating agencies or the Bank's internal credit rating.

Notes to the Annual Financial Statements
For the year ended December 31, 2020

5. Financial risk management – continued

Credit risk – continued
ECL measurement
The Bank applies a three-stage model for impairment based on changes in credit quality since initial recognition. The ECL calculation tool designed by Moody's is used for the year ended December 2020 and 2019.

Significant increases in credit risk
In assessing whether a financial instrument has experienced a significant increase in credit risk, the Bank considers both qualitative and quantitative criteria including forward-looking information available without undue cost or effort. In particular, the following information is considered in assessing whether there has been a significant increase in credit risk:

Quantitative criteria include:
- Delay in interest or principal payment exceeds 30 days; or
- Rating downgrade by three notches compared to the rating at initial recognition.

Qualitative criteria include:
- History of arrears within 12 months;
- Material regulatory action against the borrower; and/or
- Failure to comply with covenants or loan condition renegotiation.

Credit-impaired financial assets
The ECL is calculated on a 12-month basis for assets without a significant increase in credit risk since their initial recognition 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. A financial asset is credit-impaired when one or more events that have a material detrimental impact on the estimated future cash flows of that financial asset have occurred.

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

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

- Unconditional Point-in-time Probability of Default ('PIT-PD') for sovereign loans is changed for the year ended December 31, 2020, for the refinement of key assumptions and estimates made based on the Bank's recent experience and peer practice after the Bank's revisiting the ECL model, from the latest Standard and Poor's observed default rate to Moody's model which has been applied for non-sovereign loans in prior years and considers specific rating, country and industry information. The unconditional PIT-PD is also derived based on Moody's model for due from banks, debt instruments measured at amortised cost and debt instruments at FVTOCI. It is then conditioned on three future macroeconomic scenarios (baseline, optimistic and pessimistic);
- LGD for the sovereign loans is changed for the year ended December 31, 2020 for the refinement of key assumptions and estimates made based on the Bank's recent experience and peer practice from 30% to a range of 10% to 45%, and LGD for the non-sovereign loans is changed from 75% to 45% for non-sovereign loans with senior unsecured claims and 75% for non-sovereign loans with subordinated claim, respectively, after the Bank's revisiting the ECL model. 10% of LGD is applied for sovereign debt instruments measured at amortised cost and sovereign debt instruments at FVTOCI. 45% of LGD is applied for due from banks, non-sovereign debt instruments measured at amortised cost and non-sovereign debt instruments at FVTOCI.
- EAD includes the sum of loans disbursed, interest receivable and net projected disbursement schedule over the next 12 months for sovereign and non-sovereign loans. The EAD includes the sum of principal and interest receivable for due from banks, debt instruments measured at amortised cost and debt instruments at FVTOCI; and
- Discount rate is equal to the effective interest rate.

5. Financial risk management – continued

Credit risk – continued

Lifetime ECL measurement

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

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

- The process to determine the PIT-PD term structure is the same as 12-month ECL calculation for the first five 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 over the remaining loan contract period for sovereign and non-sovereign loans. The EAD is based on the sum of principal and interest receivable throughout the remaining life for due from banks, debt instruments measured at amortised cost and debt instruments at FVTOCI;
- 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 five years.
(ii) Based on each member country's development and conditions, a range of forward-looking macroeconomic information is considered.
(iii) Choice of macro scenarios and probability weightings of each scenario is approved by the Management.

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

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

Sensitivity analysis

The weights of the scenarios used, is another source of sensitivity. Should the Bank have changed the weightings to 45%, 25% and 30% respectively for baseline, optimistic and pessimistic scenarios, the amount of ECL would have been USD 46.2 million (December 31, 2019: USD 6.1 million) or increased by USD 2.3 million (December 31, 2019: USD 0.3 million).

Definition of default

For the ECL measurement, default occurs when a borrower meets one or more of the following conditions:

- Delay in interest or principal payment exceeds 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.

Notes to the Annual Financial Statements

For the year ended December 31, 2020

5. Financial risk management – continued

Credit risk – continued

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, 2020	Maximum facility USD million	Effective facility USD million	Utilised USD million	Unutilised loan commitments USD million
Senior investment grade	4,861	4,861	1,783	3,078
Investment grade	7,929	7,309	2,988	4,321
Sub-investment grade	3,092	2,092	1,838	254
Total	15,882	14,262	6,609	7,653
Interest receivable			34	–
Less: Provision for loans and commitments			(31)	(8)
Carrying amount as at December 31, 2020			6,612	7,645

As at December 31, 2019	Maximum facility USD million	Effective facility USD million	Utilised USD million	Unutilised loan commitments USD million
Senior investment grade	3,570	3,283	329	2,954
Investment grade	5,246	4,626	862	3,764
Sub-investment grade	550	550	348	202
Total	9,366	8,459	1,539	6,920
Interest receivable			11	–
Less: Provision for loans and commitments			(5)	(1)
Carrying amount as at December 31, 2019			1,545	6,919

Additional disclosures on the stage classification and ECL allowance of loans and advances and loan commitments are set out in Note 20 and Note 29, respectively.

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, 2020	Effective facility USD million	Utilised USD million	Unutilised loan commitments USD million
India	5,092	2,047	3,045
China	4,811	1,733	3,078
Russia	1,968	991	977
South Africa	1,558	1,325	233
Brazil	833	513	320
Total	14,262	6,609	7,653
Interest receivable		34	–
Less: Provision for loans and commitments		(31)	(8)
Carrying amount as at December 31, 2020		6,612	7,645

5. Financial risk management – continued

Credit risk – continued

Concentration risk – continued

As at December 31, 2019	Effective facility USD million	Utilised USD million	Unutilised loan commitments USD million
India	1,980	395	1,585
China	3,233	292	2,941
Russia	2,216	374	1,842
South Africa	480	130	350
Brazil	550	348	202
Total	8,459	1,539	6,920
Interest receivable		11	–
Less: Provision for loans and commitments		(5)	(1)
Carrying amount as at December 31, 2019		1,545	6,919

Credit exposure on deposits

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

	As at Dec 31, 2020 USD million	As at Dec 31, 2019 USD million
Cash equivalents		
Senior investment grade	**2,176**	1,023
Investment grade	**17**	–
Sub-investment grade	**–***	–
Due from banks other than cash and cash equivalents		
Senior investment grade	**6,746**	5,495
Investment grade	**20**	–
Total	**8,959**	6,518
Less: ECL allowance	**(4)**	–
Carrying amount as at December 31, 2020	**8,955**	6,518

* Less than United States dollar ("USD") half a million.

Credit exposure on debt instruments measured at amortised costs

	As at Dec 31, 2020 USD million	As at Dec 31, 2019 USD million
Senior investment grade	**737**	34
Investment grade	**27**	–
Total	**764**	34
Less: ECL allowance	**(1)**	–
Carrying amount as at December 31, 2020	**763**	34

Notes to the Annual Financial Statements
For the year ended December 31, 2020

5. Financial risk management – continued

Credit risk – continued
Credit exposure on debt instruments at FVTOCI

	As at Dec 31, 2020 USD million	As at Dec 31, 2019 USD million
Senior investment grade	131	–
Total	**131**	**–**

There has been no significant increase in credit risk since initial recognition associated with the amounts due from banks, debt instruments measured at amortised cost and debt instruments at FVTOCI up to December 31, 2020. The credit exposure on cash and cash equivalents exclude 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. Any overdue amount related to paid-in capital receivables cannot be discharged and shall be paid in full. No payments are overdue as of December 31, 2020. In the opinion of the management of the Bank, the credit risk associated with the capital receivables is not material.

Credit risk on derivatives
The Bank has entered into derivative contracts for the purpose of achieving an economic hedge of currency and interest rate risk associated with the bond issued, time deposits and investment measured at amortised cost. The Bank chose counterparties with high credit rating mostly in mainland China, Hong Kong and Singapore and entered agreements with them. Under the ISDA master agreement, if a default by counterparty occurs all contracts with the counterparty will be terminated. At any point of time the maximum exposure to credit risk is limited to the current fair value of instruments.

Credit risk on financial assets held under resale agreements
There has been no significant increase in credit risk since initial recognition associated with the amounts of financial assets held under resale agreements up to December 31, 2020.

Risk concentrations
The Bank manages concentration risk through the limits on the basis of the individual counterparties and geographical region in accordance with the Board-approved policy. The Bank will diversify its credit exposures over time.

Liquidity risk
The Bank's liquidity risk arises largely from the following two circumstances:
(i) Insufficient liquidity to settle obligations or to meet cash flow needs including, but not limited to, the inability to maintain normal lending operations and to support public or private projects in a timely manner.
(ii) Inability to liquidate an investment at a reasonable price within the required period of time.

The Bank utilises a set of risk measurement tools for identifying, monitoring and managing and controlling liquidity risk. The Bank maintains an appropriate mix of liquid assets a source of liquidity for day-to-day operational needs, as well as for meeting emergency funding needs. The Bank also has the channel to borrow funds and issue debt securities or note payables in order to achieve its development mission and optimise liquidity. The Bank monitors liquidity risk through the liquidity risk ratios and indicators, as prescribed in the liquidity risk management policy of the Bank.

The following table presents the cash flows associated with main financial assets and financial liabilities based on the remaining period at the end of reporting period to the contractual maturity date. The balances in the tables will not necessarily agree to amounts presented on the statement of financial position as amounts incorporate cash flows on an undiscounted basis and the figures therefore include both principal and associated future interest payments.

5. Financial risk management – continued

Liquidity risk – continued

As at December 31, 2020	On demand USD million	Less than 1 month USD million	1-3 months USD million	3-12 months USD million	1-5 years USD million	Over 5 years USD million	Total USD million
Non-derivatives							
Cash and cash equivalents	2,100	59	34	–	–	–	2,193
Due from banks other than cash and cash equivalents	–	2,497	1,299	2,338	661	–	6,795
Financial assets held under resale agreements	–	66	–	–	–	–	66
Debt instruments measured at amortised cost	–	31	49	564	136	–	780
Loans and advances	–	–	83	97	1,322	7,446	8,948
Paid-in capital receivables	–	292	–	–	1,620	–	1,912
Other financial assets	–*	–	1	–	–	–	1
Financial liabilities designated at FVTPL	–	–	(14)	(516)	(5,246)	–	(5,776)
Note payables	–	(510)	(30)	(2,280)	–	–	(2,820)
Lease liabilities	–	–	–*	–*	–*	–	–*
Other financial liabilities	(4)	–	–	–	–	–	(4)
Sub-total	2,096	2,435	1,422	203	(1,507)	7,446	12,095
Derivatives							
Net setting derivatives							
Interest rate swap – cash inflow	–	–	4	14	7	–	25
Interest rate swap – cash outflow	–	(1)	(3)	(4)	(24)	–	(32)
Foreign exchange forward – cash outflow	–	–	(1)	–	–	–	(1)
Gross setting derivatives							
Cross currency swap – cash inflow	–	–	5	384	195	588	1,172
Cross currency swap – cash outflow	–	–*	(3)	(365)	(166)	(679)	(1,213)
Foreign exchange forward – cash inflow	–	–	354	155	–	–	509
Foreign exchange forward – cash outflow	–	–	(382)	(155)	–	–	(537)
Sub-total	–	(1)	(26)	29	12	(91)	(77)
Net	2,096	2,434	1,396	232	(1,495)	7,355	12,018

* Less than United States dollar ("USD") half a million.

Notes to the Annual Financial Statements
For the year ended December 31, 2020

5. Financial risk management – continued

Liquidity risk – continued

As at December 31, 2019	On demand USD million	Less than 1 month USD million	1-3 months USD million	3-12 months USD million	1-5 years USD million	Over 5 years USD million	Total USD million
Non-derivatives							
Cash and cash equivalents	226	742	56	–	–	–	1,024
Due from banks other than cash and cash equivalents	–	1,331	1,497	2,475	254	–	5,557
Loans and advances	–	–	21	45	539	1,391	1,996
Paid-in capital receivables	–	300	–	–	3,500	–	3,800
Debt instruments measured at amortised cost	–	–	1	8	27	–	36
Other financial assets	1	–	–	–	–	–	1
Financial liabilities designated at FVTPL	–	–	(13)	(13)	(904)	–	(930)
Short-term borrowings	–	(110)	–	–	–	–	(110)
Note payables	–	(97)	(280)	(250)	–	–	(627)
Lease liabilities	–	–	–*	–*	–*	–	–*
Other financial liabilities	(4)	–	–	–	–	–	(4)
Sub-total	223	2,166	1,282	2,265	3,416	1,391	10,743
Derivatives							
Net setting derivatives							
Interest rate swap – cash inflow	–	–	10	2	30	–	42
Interest rate swap – cash outflow	–	(1)	(5)	(10)	(18)	–	(34)
Gross setting derivatives							
Cross currency swap – cash inflow	–	–	–	11	350	–	361
Cross currency swap – cash outflow	–	(4)	–	(3)	(365)	–	(372)
Foreign exchange forward – cash inflow	–	–	–	256	15	–	271
Foreign exchange forward – cash outflow	–	–	–	(258)	(15)	–	(273)
Sub-total	–	(5)	5	(2)	(3)	–	(5)
Net	223	2,161	1,287	2,263	3,413	1,391	10,738

* Less than United States dollar ("USD") half a million.

5. Financial risk management – continued

Market risk
Market risk is the risk that market rates and prices on assets, liabilities and off-balance sheet positions change, which results in profits and losses to the Bank. The Bank's market risk mainly consists of interest rate risk, exchange rate risk and other price risk arising from the current portfolio. The Treasury and Portfolio Management Division of the Bank makes investment and hedging decisions within the guidelines set in Board-approved polices.

Interest rate risk
Interest rate risk is defined as the risk of adverse impact on the Bank's financial position, including its income and economic value, due to interest rate movements. The Bank's lending and investment activities may expose the Bank to interest rate risk. In addition, changes in the macroeconomic environment impact significantly on the movement of interest rate curves for different currencies.

The Bank has limited tolerance towards interest rate risks. The primary strategy for management of interest rate risk is to match the interest rate sensitivity of individual currencies on both sides of the statement of financial position. The tenor for which the interest is fixed on a financial instrument indicates the extent to which it is exposed to interest rate risk. Interest rate risk arises principally from the sensitivity associated with the net spread between the rate the Bank earns on its assets and the cost of borrowings which funds those assets and the sensitivity of the income earned from funding a portion of the Bank's assets with equity. Loans and advances of the Bank are subject to either floating 6-month Libor or floating 3-month Shibor. The Bank uses interest rate swaps to convert liabilities and certain financial instruments into floating 6-month Libor, 3-month Libor or 3-month Shibor.

Accordingly, interest rate risk management aims to minimise mismatches of structure and maturities (repricing) of interest rate sensitive assets and liabilities in the Bank's portfolios by adopting a match-funding principle complemented by duration gap analysis, interest rate repricing gap analysis, economic value of equity analysis and scenario analysis. The Bank aims to maintain the duration up to the approved limits by generating a stable overall net interest margin that is not overly sensitive to sharp changes in market interest rates, but adequately responsive to general market trends. An adequate match-funding refers to the principles of funding that has broadly the same characteristics as the corresponding loans in terms of interest rate and currency. Such minimisation of mismatches protects the Bank's net interest margin from fluctuations in market interest rates. The Bank also undertakes derivative transactions to hedge interest rate risk.

The Bank measures its interest rate exposure by using the interest rate repricing profile which is used to analyse the impact of interest rate change on its net interest income due to the repricing mismatch between assets, liabilities and off-balance sheet positions over a range of repricing buckets. Interest-bearing assets and liabilities including off-balance sheet positions are slotted into their respective repricing time bands according to their earliest interest repricing dates.

Interest rate sensitivity analysis
The objective of net interest income ('NII') sensitivity analysis is to utilise projected earnings simulations to forecast, and to measure and manage interest rate risk. NII analysis measures the sensitivity of net interest income earnings to changes in interest rates.

The sensitivity analysis is prepared assuming the interest-bearing financial assets and liabilities outstanding at the end of each respective reporting periods were outstanding for the whole year.

When reporting to the Management on the interest rate risk, a 25 basis points increase or decrease in the relevant interest rates is adopted for sensitivity analysis, when considering the reasonably possible change in interest rates. The impact of a change in interest rates on the last date of the reporting period is shown below.

	Impact on profit	
	Year ended December 31, 2020 USD million	Year ended December 31, 2019 USD million
+ 25 basis points	**18**	11
– 25 basis points	**(18)**	(11)

Notes to the Annual Financial Statements
For the year ended December 31, 2020

5. Financial risk management – continued

Exchange rate risk
The exchange rate risk the Bank faces arises from the impact of exchange rate movements on net open positions. Movements in currencies in which the Bank transacts, relatively to its functional currency (the U.S. dollar), can affect the Bank's results. The Bank's main exposure to the exchange rate risk is Renminbi ('RMB') for the year ended December 31, 2020 and 2019. The RMB exposures are mainly hedged through swaps or forwards.

The Bank aims at reducing or limiting exposure to the exchange rate risk arising from its normal course of business, while maximising its capacity to assume the risks of extending credit to clients (or borrowers) within its approved risk limits. The Bank uses the net exchange position limit to contain the exchange rate risk exposure.

The Bank seeks to match the currency of its assets with the currency of the corresponding funding source. The Bank uses currency derivative contracts to align the currency composition of its equity and liabilities to its asset.

Exchange rate sensitivity analysis
The following table shows the impact of an appreciation or depreciation of USD against foreign currencies as at December 31, 2020 and December 31, 2019 assuming that all other variables remain constant.

	Impact on profit	
	Year ended December 31, 2020 USD million	Year ended December 31, 2019 USD million
10% appreciation	–*	–*
10% depreciation	–*	–*

* Less than United States dollar ("USD") half a million.

Other price risk
Other price risk is primarily about the unfavourable changes of fund price and other financial instruments prices that cause financial losses. Quantitatively, the other price risk the Bank facing is mainly the proportionate fluctuation in the Bank's profits due to the price fluctuation of the financial instrument. The Bank monitors the investment position on a regular basis.

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, Equity-to-Asset Ratio and Capital Utilisation 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.

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 among 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 five 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 financial liabilities designated at fair value through profit and loss, derivatives and financial assets at fair value through profit or loss as at December 31, 2020.

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. For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety. The fair value hierarchy is as below.
- **Level 1:** Quoted prices (unadjusted) in active markets for the financial assets or the liabilities that the Bank can access at the measurement date.
- **Level 2:** Inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- **Level 3:** Inputs are unobservable inputs for the asset or liability.

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

Fair value of the Bank's financial instruments that are measured at fair value on a recurring basis
The Bank is of the opinion that there is no active market related to its bonds issued in view of the low trading volume and frequency.

The fair value estimates are based on the following methodologies and assumptions:
- The fair values of derivative assets and liabilities, including foreign exchange forwards, 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 reputable agencies like Bloomberg.
- The fair value of the financial liabilities designated at fair value through profit and loss is 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 fair value of money market fund is based on the net asset value that is determined with reference to observable prices of underlying investment portfolio and adjustments of related expenses.
- The fair value of debt instruments at FVTOCI is based on quoted price in an active market.

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

	Level 1 USD million	Level 2 USD million	Level 3 USD million	Total USD million
As at December 31, 2020				
Financial assets				
Financial assets at fair value through profit or loss	–	400	–	400
Debt instruments at FVTOCI	131	–	–	131
Derivatives	–	27	–	27
Total financial assets measured at fair value	131	427	–	558
Financial liabilities				
Derivatives	–	98	–	98
Financial liabilities designated at fair value	–	5,556	–	5,556
Total financial liabilities measured at fair value	–	5,654	–	5,654

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 – continued

	Level 1 USD million	Level 2 USD million	Level 3 USD million	Total USD million
As at December 31, 2019				
Financial assets				
Derivatives	–	5	–	5
Total financial assets measured at fair value	–	5	–	5
Financial liabilities				
Derivatives	–	12	–	12
Financial liabilities designated at fair value	–	883	–	883
Total financial liabilities measured at fair value	–	895	–	895

There were no transfers between Level 1 and 2 during the year ended December 31, 2020 and 2019.

There were no third-party credit enhancements in the fair value measurement for financial liabilities designated at fair value as at December 31, 2020 and 2019.

Fair value of the Bank's financial instruments that are not measured at fair value on a recurring basis
The table below shows the carrying amount and expected fair value of loans and advances with obvious variance, which is not presented on the Bank's statement of financial position at their fair values. The fair value of loans and advances is determined in accordance with discounted cash flow method. The main parameters used in discounted cash flow method for financial instruments held by the Bank that are not measured on a recurring basis include loan interest rates, foreign exchange rates and counterparty credit spreads.

	As at December 31,			
	2020		2019	
	Carrying amount USD million	Fair value USD million	Carrying amount USD million	Fair value USD million
Financial assets				
Loans and advances	**6,612**	**6,686**	1,545	1,553

As at December 31, 2020

	Level 1 USD million	Level 2 USD million	Level 3 USD million	Total USD million
Financial assets				
Loans and advances	–	–	6,686	6,686

As at December 31, 2019

	Level 1 USD million	Level 2 USD million	Level 3 USD million	Total USD million
Financial assets				
Loans and advances	–	–	1,553	1,553

The fair value of the loans and advances above has been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of respective counterparties.

Except for the above, the Bank considered that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the Bank's statement of financial position, approximate their fair values.

7. Net interest income

	For the year ended December 31, 2020 USD million	For the year ended December 31, 2019 USD million
Interest income from banks	**149**	194
Interest income from loans and advances	**100**	36
Interest income from debt instruments measured at amortised cost	**3**	1
Interest income from financial assets held under resale agreements	**2**	–
Interest income from debt instruments at FVTOCI	**–***	–
Total interest income	**254**	231
Interest expense on bonds issued	**(54)**	(25)
Interest expense on short-term borrowings	**(1)**	–*
Interest expense on note payables	**(18)**	(8)
Interest expense on financial assets sold under repurchase agreements	**–***	–
Interest expense on lease liabilities	**–***	–*
Total interest expense	**(73)**	(33)
Net interest income	**181**	198

* Less than United States dollar ("USD") half a million.

8. Net fee income

	For the year ended December 31, 2020 USD million	For the year ended December 31, 2019 USD million
Front-end fee recognised	**2**	1
Commitment fee	**3**	1
Total	**5**	2

9. Net (losses)/gains on financial instruments at fair value through profit or loss

	For the year ended December 31, 2020 USD million	For the year ended December 31, 2019 USD million
Derivatives	**(74)**	2
Bonds	**(115)**	20
Money market funds	**–***	–
Others (Note 1 below)	**(2)**	–
Total	**(191)**	22

The realised losses arising from derivatives financial instruments for the year ended December 31, 2020 were USD 10 million (year ended December 31, 2019: realised gains of USD 4 million).

Note 1: Others mainly represent unrealised losses on investments in private equity fund.

* Less than United States dollar ("USD") half a million.

10. Staff costs

	For the year ended December 31, 2020 USD million	For the year ended December 31, 2019 USD million
Salaries and allowances	**32**	26
Other benefits	**9**	7
Total	**41**	33

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 for the year ended December 31, 2020 for the SRP and PRP was USD 6 million (year ended December 31, 2019: USD 5 million) and USD 1 million (year ended December 31, 2019: USD 1 million) respectively and is included in 'Other benefits'. There are two retirement plans in operation. Both SRP and PRP are defined contribution schemes and are operated through trust funds. For SRP, both the Bank and staff contribute. For PRP, only the Bank contributes.

The 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, 2020 and 2019. 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, 2020 USD million	For the year ended December 31, 2019 USD million
Office expenses	**3**	3
Operating lease rentals in respect of short-term leases/low value assets	**–***	–*
Professional fees	**3**	5
Auditor's remuneration	**1**	1
Travel expenses	**1**	4
IT expenses	**4**	4
Hospitality expenses	**–***	–*
Depreciation and amortisation	**2**	1
Others	**–***	–*
Total	**14**	18

* Less than United States dollar ("USD") half a million.

12. Other expense

	For the year ended December 31, 2020 USD million	For the year ended December 31, 2019 USD million
Bond issuance costs	**9**	1
Total	**9**	1

13. Cash and cash equivalents

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Cash on hand	–*	–*
Demand deposit	**2,100**	226
Time deposit with original maturity within three months	**93**	797
Total	**2,193**	1,023

* Less than United States dollar ("USD") half a million.

14. Due from banks other than cash and cash equivalents

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Commercial banks	**6,859**	6,292
Less: ECL allowance	**(4)**	–
	6,855	6,292
Less: Time deposit with original maturity within three months	**(93)**	(797)
Total	**6,762**	5,495

Reconciliation of provision for due from banks:

	12 month ECL USD million
ECL allowance of due from banks as at January 1, 2020	–
Additions	4
Change in risk parameters	–*
ECL allowance of due from banks as at December 31, 2020	4

* Less than United States dollar ("USD") half a million.

For the year ended December 31, 2020, the additions to the ECL allowance of USD 4 million was due to origination of due from banks with gross carrying amount of USD 6,605 million.

15. Derivative financial assets/liabilities

The Bank entered into derivative contracts in connection with the green bond issued in July, 2016, that was paired with swaps of which the total notional amounts in Renminbi ('RMB') is 3 billion, to convert the issuance proceeds into the currency and interest rate structure sought by the Bank.

The Bank entered into derivative contracts for the new panda bond issued in February, 2019, the coronavirus combating bond issued in April, 2020 and the 2020 RMB bond (Series 2) issued in July, 2020 that were paired with swaps of which the total notional amounts are RMB 3 billion, RMB 5 billion and RMB 2 billion respectively, to convert the issuance proceeds into the interest rate structure sought by the Bank.

Similarly, the Bank also entered into derivative contracts for the Euro Medium Term Note (series 1) issued in June, 2020, the Euro Medium Term Note (series 2) issued in September, 2020 and new note issued in December, 2020 that were paired with swaps of which the total notional amounts are USD 1.5 billion, USD 2 billion and USD 50 million respectively, to convert the issuance proceeds into the interest rate structure sought by the Bank.

Notes to the Annual Financial Statements
For the year ended December 31, 2020

15. Derivative financial assets/liabilities – continued

Besides, the Bank has entered into derivative contracts for loans and advances, debt instruments measured at amortised cost, debt instruments measured at FVTOCI and due from banks that were paired with swaps to convert the notional amounts into the currency and/or interest rate structure sought by the Bank. The Bank has also entered into forward contracts for debt instruments measured at amortised cost and due from banks other than cash and cash equivalents.

Notwithstanding the purpose for achieving an economic hedge, the Bank opted not to apply hedge accounting to any derivative contracts entered into in the financial year ended December 31, 2020 and 2019.

As at December 31, 2020	Notional USD USD million	Fair Value Assets USD million	Fair Value Liabilities USD million
Interest rate swap	**5,301**	**13**	**19**
Cross currency swap	**1,021**	**14**	**52**
Forward contract	**536**	**–**	**27**
Total	**6,858**	**27**	**98**

As at December 31, 2019	Notional USD USD million	Fair Value Assets USD million	Fair Value Liabilities USD million
Interest rate swap	733	5	–*
Cross currency swap	359	–	10
Forward contract	271	–	2
Total	1,363	5	12

* Less than United States dollar ("USD") half a million.

Interest Rate Swap: As at December 31, 2020, fixed rates received ranged from 0.353% to 3.32% (December 31, 2019: 3.00% to 3.32%), and floating reference rates paid were 3-month Shibor or 6-month Libor (December 31, 2019: 3-month Shibor). Besides, fixed rates paid ranged from 0.2635% to 0.384% (December 31, 2019: N/A), and floating reference rate received was 3-month Libor (December 31, 2019: N/A).

Cross currency swap: As at December 31, 2020 and 2019, the Bank's cross currency swap is related to swap contracts with exchange of RMB, South African rand ('ZAR'), Swiss franc ('CHF') or Russian roubles ('RUB') to USD. As at December 31, 2020, fixed rates received ranged from 1.88% to 3.07% (December 31, 2019: 3.07%), and floating reference rates paid were 6-month USD Libor, 6-month CHF Libor, 3-month ZAR Jibar or 3-month Shibor (December 31, 2019: 6-month USD Libor). Besides, fixed rate paid was 5.945% (December 31, 2019: N/A), and floating reference rates received were 6-month USD Libor or 3-month USD Libor (December 31, 2019: N/A).

Forward contract: As at December 31, 2020 and 2019, the exchange rates of forward contracts with exchange of RMB to USD were ranged from USD 1: RMB 6.6818 to USD 1: RMB 7.0965 and from USD 1: RMB 7.0316 to USD 1: RMB 7.0935, respectively. As at December 31, 2020, the exchange rate of forward contract with exchange of Indian rupee ('INR') to USD was USD 1: INR 75.023.

16. Financial assets held under resale agreements

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Analysed by collateral type:		
– Bonds	**66**	–
Total	**66**	–

17. Financial assets at fair value through profit or loss

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Mandatorily measured at FVTPL:		
– Money market fund	**400**	–
– Private equity fund	**–***	–
Total	**400**	–

* Less than United States dollar ("USD") half a million.

18. Debt instruments at fair value through other comprehensive income

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Government bonds	**101**	–
Corporate bond	**30**	–
Total	**131**	–

As at December 31, 2020, the 12-month ECL allowance recognised for debt instruments at FVTOCI is less than USD half of a million.

19. Debt instruments measured at amortised cost

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Policy bank bonds	**207**	27
Commercial bank bond	**557**	7
Less: ECL allowance	**(1)**	–
Net carrying amount	**763**	34

Reconciliation of provision for debt instruments measured at amortised cost:

	12 month ECL USD million
ECL allowance of debt instruments measured at amortised costs as at January 1, 2020	–
Additions	1
Change in risk parameters	–*
ECL allowance of debt instruments measured at amortised costs as at December 31, 2020	1

* Less than United States dollar ("USD") half a million.

For the year ended December 31, 2020, the additions to the ECL allowance of USD 1 million was due to purchase of debt instruments measured at amortised cost with gross carrying amount of USD 736 million.

Notes to the Annual Financial Statements
For the year ended December 31, 2020

20. Loans and advances

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Principal	**6,609**	1,539
Interest receivable	**34**	11
Gross carrying amount	**6,643**	1,550
Less: ECL allowance	**(31)**	(5)
Net carrying amount	**6,612**	1,545

As at December 31, 2020, the net carrying amount of loans and advances denominated in RMB or CHF amounted to USD 2,079 million (December 31, 2019: USD 136 million).

Reconciliation of provision for loans raised:

	12 month ECL USD million	Lifetime ECL – not credit-impaired USD million	Total USD million
ECL allowance of loans as at January 1, 2020	**5**	**–**	**5**
Transfer to lifetime ECL – not credit-impaired	**(1)**	**1**	**–**
Additions	**11**	**8**	**19**
Derecognition	**(1)**	**–**	**(1)**
Change in risk parameters	**4**	**4**	**8**
ECL allowance of loans as at December 31, 2020	**18**	**13**	**31**

	12 month ECL USD million	Lifetime ECL – not credit-impaired USD million	Total USD million
ECL allowance of loans as at January 1, 2019	3	–	3
Additions	1	–	1
Derecognition	–*	–	–*
Change in risk parameters	1	–	1
ECL allowance of loans as at December 31, 2019	5	–	5

* Less than United States dollar ("USD") half a million.

For the year ended December 31, 2020, the additions to the ECL allowance of USD 19 million (December 31, 2019: USD 1 million) was due to origination of loans and advances with gross carrying amount of USD 5,415 million (December 31, 2019: USD 925 million).

For the year ended December 31, 2020, the derecognition to the ECL allowance of USD 1 million (December 31, 2019: less than USD half of a million) was due to repayment of loans and advances with gross carrying amount of USD 331 million (December 31, 2019: USD 7 million).

As at December 31, 2020	12 month ECL USD million	Lifetime ECL – not credit-impaired USD million	Total USD million
Gross carrying amount	**6,342**	**301**	**6,643**

As at December 31, 2019	12 month ECL USD million	Lifetime ECL – not credit-impaired USD million	Total USD million
Gross carrying amount	1,550	–	1,550

21. Paid-in capital receivables

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Balance of nominal amounts of receivable at the beginning of year (Note 1 below)	**3,800**	5,009
Less:		
Instalments received during the year (Note 2 below)	**(1,888)**	(1,209)
Total nominal amounts of receivable at the end of the year (Note 4 below)	**1,912**	3,800
Less:		
Interest on paid-in capital receivables to be unwound in the future years (Note 3 below)	**(27)**	(86)
Balance at the end of the year	**1,885**	3,714

Note 1:
As disclosed in Note 30, the Bank established the rights to receive the initial subscribed paid-in capital of 100,000 shares, which total USD 10 billion upon the effective date of the Agreement. Each founding member shall initially and equally subscribe to 20,000 shares that correspond to paid-in capital. The payment of the amount initially subscribed to the paid-in capital stock of the Bank shall be made in seven instalments. The first instalment of paid-in capital shall be paid by each member within six months of the Agreement coming into force and the second instalment shall become due 18 months from the date the Agreement came into force. The remaining five instalments shall each become due successively one year from the date on which the preceding instalment becomes due.

Note 2:
The instalment received in the year ended December 31, 2020 resulted from the receipts of the fifth instalment, and partial receipts of the sixth and seventh 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 million less USD 566 million of accumulated unwinding interest already unwound on the paid-in capital receivables (December 31, 2019: USD 517 million) and USD 29 million of accumulated early payment impact on discounting, which was credited to reserves as an equity transaction by the end of December 31, 2020 (December 31, 2019: USD 19 million).

Note 4:
As at December 31, 2020, there was no overdue instalments of paid-in capital receivables. The total paid-in capital receivables that will become due within one year amounted to an undiscounted value of USD 292 million, and that will become due over one year amount to an undiscounted value of USD 1,620 million.

Notes to the Annual Financial Statements
For the year ended December 31, 2020

22. Property and equipment

	IT equipment USD million	Appliance USD million	Vehicle USD million	Furniture USD million	Others USD million	Total USD million
Cost as at January 1, 2020	2	–*	–*	–*	–*	2
Additions during the year	1	–*	–*	–*	–	1
Disposal for the year	–*	–	–	–	–	–*
Cost at December 31, 2020	**3**	–*	–*	–*	–*	**3**
Accumulated depreciation as at January 1, 2020	(1)	–*	–*	–*	–*	(1)
Depreciation for the year	(1)	–*	–*	–*	–*	(1)
Disposals/written-off	–*	–	–	–	–	–*
Accumulated depreciation as at December 31, 2020	(2)	–*	–*	–*	–*	(2)
Net book value as at December 31, 2020	**1**	**–***	**–***	**–***	**–***	**1**

	IT equipment USD million	Appliance USD million	Vehicle USD million	Furniture USD million	Others USD million	Total USD million
Cost as at January 1, 2019	1	–*	–*	–*	–*	1
Additions during the year	1	–	–	–	–	1
Disposal for the year	–*	–	–	–	–	–*
Cost at December 31, 2019	2	–*	–*	–*	–*	2
Accumulated depreciation as at January 1, 2019	–*	–*	–*	–*	–*	–*
Depreciation for the year	(1)	–*	–*	–*	–*	(1)
Disposals/written-off	–*	–	–	–	–	–*
Accumulated depreciation as at December 31, 2019	(1)	–*	–*	–*	–*	(1)
Net book value as at December 31, 2019	1	–*	–*	–*	–*	1

* Less than United States dollar ("USD") half a million.

23. Intangible assets

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Cost as at the beginning of the year	**2**	1
Additions for the year	**–***	1
As at the end of the year	**2**	2
Accumulated amortisation		
As at the beginning of the year	**–***	–*
Amortisation for the year	**(1)**	–*
As at the end of the year	**(1)**	–*
Net book value as at the end of the year	1	2

* Less than United States dollar ("USD") half a million.

24. Other assets

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Commitment fee receivables	**1**	1
Other receivables	**–***	–*
Others (Note 1 below)	**2**	1
Total	**3**	2

* Less than United States dollar ("USD") half a million.

Note 1:
Others mainly include prepayment.

25. Financial liabilities designated at fair value through profit or loss

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Bond		
– Principal	**5,426**	896
– Interest payable	**45**	17
– Fair value adjustment	**85**	(30)
Total	**5,556**	883

In July 2016, the Bank issued a five-year green bond with par value RMB 3 billion (USD 448 million equivalent) and the maturity date at July 19, 2021. The interest is paid by the Bank annually with a fixed coupon rate of 3.07%.

In February 2019, the Bank issued a RMB 3 billion (USD 448 million equivalent) new panda bond consisting of two tranches: RMB 2 billion for a three-year tenor with the maturity date at February 23, 2022, at an annual fixed coupon rate of 3.00%; and RMB 1 billion for a five-year tenor with the maturity date at February 23, 2024, at an annual fixed coupon rate of 3.32%.

In April 2020, the Bank issued a three-year coronavirus combating bond with par value of RMB 5 billion (USD 704 million equivalent) with the maturity date on April 3, 2023. The interest is paid by the Bank annually with a fixed coupon rate of 2.43%.

In June 2020, the Bank issued a three-year Euro Medium Term Note (series 1) with par value of USD 1.5 billion at a discount with the maturity date on June 23, 2023. The interest is paid by the Bank annually with a fixed coupon rate of 0.625%.

In July 2020, the Bank issued a five-year RMB bond (series 2) with par value of RMB 2 billion (USD 284 million equivalent) with the maturity date on July 7, 2025. The interest is paid by the Bank annually with fixed coupon rate of 3%.

In September 2020, the Bank issued a five-year Euro Medium Term Note (series 2) with par value of USD 2 billion at a discount with the maturity date on September 29, 2025. The interest is paid by the Bank annually with a fixed coupon rate of 0.625%.

In December 2020, the Bank issued a two-year note with par value of USD 50 million under the Euro Medium Term Note Programme as a private placement, with the maturity date on December 23, 2022. The interest is paid by the Bank annually with fixed coupon rate of 0.435%.

There has been no change in fair value of the bond attributable to changes in the Bank's credit risk for the year ended December 31, 2020 and 2019. The contractual principal amount to be paid at maturity in original currency are RMB 13 billion for RMB denominated bonds and USD 3.55 billion for USD denominated notes respectively.

As at December 31, 2020, the carrying amount of financial liabilities designated at FVTPL denominated in RMB amounted to USD 2 billion (December 31, 2019: USD 883 million).

Notes to the Annual Financial Statements

For the year ended December 31, 2020

26. Borrowings

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Unsecured short-term borrowings	–	110
Total	–	110

During the year ended December 31, 2020, the unsecured bank borrowing bearing the fixed rate of 1.935% per annum was repaid.

27. Note payables

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Note payables	**2,815**	623
Total	**2,815**	623

Note payables includes various zero-coupon note issuances with maturity within one year.

28. Contract liabilities

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Deferred income (Note 1 below)	**28**	15
Total	**28**	15

Note 1:
The deferred income disclosed above relates to the unsatisfied performance obligations of front-end fees as at December 31, 2020 and 2019. Revenue recognised for the year ended December 31, 2020 that was included in the contract liability balance at the beginning of the year is USD 2 million (year ended December 31, 2019: less than USD half of a million).

As at January 1, 2019, contract liabilities amounted to USD 4 million.

29. Other liabilities

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Employee benefits payable	**–***	–*
Accrued expenses	**4**	4
Impairment provision of loan commitments	**8**	1
Annual leave provision	**2**	1
Total	**14**	6

* Less than United States dollar ("USD") half a million.

29. Other liabilities – continued

Reconciliation of provision for loan commitments

	12 month ECL USD million	Lifetime ECL – not credit-impaired USD million	Total USD million
ECL allowance of loan commitments as at January 1, 2020	**1**	**–**	**1**
Additions	**3**	**4**	**7**
Derecognition	**(1)**	**–**	**(1)**
Change in risk parameters	**1**	**–**	**1**
ECL allowance of loan commitments as at December 31, 2020	**4**	**4**	**8**

	12 month ECL USD million	Lifetime ECL – not credit-impaired USD million	Total USD million
ECL allowance of loan commitments as at January 1, 2019	1	–	1
Additions	1	–	1
Derecognition	(1)	–	(1)
Change in risk parameters	–*	–	–*
ECL allowance of loan commitments as at December 31, 2019	1	–	1

* Less than United States dollar ("USD") half a million.

For the year ended December 31, 2020, the additions to the ECL allowance of USD 7 million (December 31, 2019: USD 1 million) was due to origination or increase in expected drawdown of loan commitments within 12 months of December 31, 2020 of USD 2,609 million (December 31, 2019: USD 1,909 million).

30. 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 as at December 31, 2020. 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, 2020		As at December 31, 2019	
	Number of shares	Amount in USD million	Number of shares	Amount in USD million
Authorised shared capital	**1,000,000**	**100,000**	1,000,000	100,000
Less: unsubscribed by members	**(500,000)**	**(50,000)**	(500,000)	(50,000)
Total subscribed capital	**500,000**	**50,000**	500,000	50,000
Less: callable capital	**(400,000)**	**(40,000)**	(400,000)	(40,000)
Total paid in capital	**100,000**	**10,000**	100,000	10,000

Notes to the Annual Financial Statements
For the year ended December 31, 2020

30. Paid-in capital – continued

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

As at December 31, 2020	Total shares Numbers	Total capital USD million	Callable capital USD million	Paid-in capital USD million	Paid-in capital[1] received USD million	Paid-in capital outstanding USD million
Brazil	**100,000**	**10,000**	**8,000**	**2,000**	**1,358**	**642**
Russia	**100,000**	**10,000**	**8,000**	**2,000**	**1,780**	**220**
India	**100,000**	**10,000**	**8,000**	**2,000**	**1,650**	**350**
China	**100,000**	**10,000**	**8,000**	**2,000**	**1,650**	**350**
South Africa	**100,000**	**10,000**	**8,000**	**2,000**	**1,650**	**350**
Total	**500,000**	**50,000**	**40,000**	**10,000**	**8,088**	**1,912**

As at December 31, 2019	Total shares Numbers	Total capital USD million	Callable capital USD million	Paid-in capital USD million	Paid-in capital[1] received USD million	Paid-in capital outstanding USD million
Brazil	100,000	10,000	8,000	2,000	1,300	700
Russia	100,000	10,000	8,000	2,000	1,300	700
India	100,000	10,000	8,000	2,000	1,000	1,000
China	100,000	10,000	8,000	2,000	1,300	700
South Africa	100,000	10,000	8,000	2,000	1,300	700
Total	500,000	50,000	40,000	10,000	6,200	3,800

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

As at December 31, 2020, all paid in capital from founding members was received in accordance with the Articles, and partial receipts relating to the sixth instalment and seventh instalment have been received ahead of schedule.

31. Reserves

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Capital reserve (Note 1 below)	**–***	–
Debt instrument revaluation reserve	**1**	–
Other reserve (Note 2 below)	**(27)**	(86)
Total	**(26)**	(86)

* Less than United States dollar ("USD") half a million.

Note 1:
During the year ended December 31, 2020, the Bank received cash contributions amounting to USD 0.11 million from Russian Federation for the reimbursement of relevant payments for the Eurasian Regional Office. The Bank recognises such cash contributions from Russian Federation as capital reserve on the basis that the contribution agreement does not include a contractual obligation of the Bank to repay cash or another financial asset, and there are no other features that would meet the definition of a financial liability.

Note 2:
Other reserve mainly represent 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 is reclassified from retained earnings to other reserves immediately following the unwinding treatment in the relevant accounting period.

32. Reconciliation of assets and liabilities arising from financing activities

Assets and liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Bank's statement of cash flows as cash flows from financing activities. The table below details changes in the Bank's assets and liabilities arising from financing activities, including both cash and non-cash changes.

			Non-cash movements		
	As at January 1, 2020 USD million	Financing cash inflows USD million	Unwinding of interest USD million	Impact of early payment USD million	As at December 31, 2020 USD million
Paid-in capital receivables	**3,714**	**(1,888)**	**49**	**10**	**1,885**
Total assets from financing activities	**3,714**	**(1,888)**	**49**	**10**	**1,885**

			Non-cash movements				
	As at January 1, 2020 USD million	Net financing cash inflows/ (outflows) USD million	Interest accrued movements USD million	Fair value changes and others USD million	Foreign exchange movements USD million	Operating cash outflows[1] USD million	As at December 31, 2020 USD million
Bond	**883**	**4,530**	**54**	**115**	–	**(26)**	**5,556**
Note payables	**623**	**2,189**	**18**	**–***	–	**(15)**	**2,815**
Short-term borrowings	**110**	**(110)**	**1**	–	–	**(1)**	–
Lease liabilities	**–***	**–***	**–***	**–***	**–***	**–***	**–***
Total liabilities from Financing activities	**1,616**	**6,609**	**73**	**115**	**–***	**(42)**	**8,371**

* Less than United States dollar ("USD") half a million.

1 USD 26 million represents an interest payment for the interest portion for the bond that is recorded in the Bank's statement of cash flows as net cash used in operating activities. USD 15 million represents an interest payment for the interest portion of note payables that is recorded in the Bank's statement of cash flows as net cash used in operating activities. USD 1 million represents an interest payment for the interest portion of short-term borrowings that is recorded in the Bank's statement of cash flows as net cash used in operating activities.

			Non-cash movements		
	As at January 1, 2019 USD million	Financing cash inflows USD million	Unwinding of interest USD million	Impact of early payment USD million	As at December 31, 2019 USD million
Paid-in capital receivables	4,847	(1,209)	72	4	3,714
Total assets from financing activities	4,847	(1,209)	72	4	3,714

			Non-cash movements				
	As at January 1, 2019 USD million	Net financing cash inflows/ (outflows) USD million	Interest accrued movements USD million	Fair value changes and others USD million	Foreign exchange movements USD million	Operating cash outflows[2] USD million	As at December 31, 2019 USD million
Short-term borrowings	–	110	–*	–	–	–	110
Bond	444	448	25	(20)	–	(14)	883
Note payables	–	618	8	–	–	(3)	623
Lease liabilities	–*	–*	–*	–	–*	–*	–*
Total liabilities from financing activities	444	1,176	33	(20)	–*	(17)	1,616

* Less than United States dollar ("USD") half a million.

2 USD 14 million represents an interest payment for the bond that is recorded in the Bank's statement of cash flows as net cash used in operating activities. USD 3 million represents an interest payment for the interest portion of note payables that is recorded in the Bank's statement of cash flows as net cash used in operating activities.

Notes to the Annual Financial Statements
For the year ended December 31, 2020

33. Financial instruments

Categories of financial instruments

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Financial assets		
Financial assets at fair value through profit or loss	**427**	5
Debt instruments at FVTOCI	**131**	–
Financial assets measured at amortised cost	**18,282**	11,812
	18,840	11,817
Financial liabilities		
Financial liabilities at fair value through profit or loss	**5,654**	895
Financial liabilities measured at amortised cost	**2,819**	627
	8,473	1,522

34. Commitments

1) Capital commitments
As at December 31, 2020, the Bank had no irrevocable capital expenditure commitments.

2) Credit Commitments

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Letters of effectiveness signed	**7,653**	6,920
Letter of effectiveness yet to be signed	**1,620**	907
Total	**9,273**	7,827

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

35. 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 Related Party Disclosures, 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 Bank; and
- Another entity that is a related party because the same government has control or joint control of, or significant influence over, both Bank and the other entity.

35. Related party disclosure – continued

The name and relationship with founding member governments are disclosed below. As at December 31, 2020 and 2019, no transactions, individually or collectively with a government are considered significant to the Bank.

(1) Name and relationship

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

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

According to the Agreement between the Government of the Russian Federation and the Bank on the Hosting of the New Development Bank Eurasian Regional Center ('ERC') in the Russian Federation, the Government of the Russian Federation has agreed to transfer special purpose contribution to the Bank for reimbursement of rent payment of ERC office premises and one-time supply of furniture, equipment and other facilities for the operation of ERC. Details of the cash contribution received from the Russian Federation as at December 31, 2020 are set out in Note 31.

Details of the paid-in capital receivables as at December 31, 2020 and 2019 are set out in Note 21, and unwinding of interest on paid-in capital receivables for the year ended December 31, 2020 and 2019 are set out in the statement of profit or loss and other comprehensive income.

(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, 2020:

Name	Country	Position
Marcos Prado Troyjo	Brazil	President (with effect from July 7, 2020)
Vaman Kundapur Kamath	India	President (up to July 6, 2020)
Anil Kishora	India	Vice President; Chief Risk Officer (with effect from July 7, 2020)
Sarquis Jose Buainain Sarquis	Brazil	Vice President; Chief Risk Officer (up to July 6, 2020)
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 December 31, 2020 USD million	For the year December 31, 2019 USD million
Salary and allowance	**3**	2
Staff retirement plan	**–***	–*
Post-retirement insurance plan	**–***	–*
Other short-term benefits	**1**	–*
Total	**4**	2

* Less than United States dollar ("USD") half a million.

36. Segment information

For the year ended December 31, 2020, the Bank has a single reportable segment and evaluates the financial performance of the Bank as a whole.

37. Unconsolidated structured entity

The Board of Governors approved the establishment of the NDB Project Preparation Fund ('NDB-PPF') on January 20, 2017. The NDB-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 NDB-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 NDB-PPF to fulfil its purpose. The NDB-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 NDB-PPF is an unconsolidated structured entity for accounting purposes.

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

As at December 31, 2020, the NDB-PPF had received contributions amounting to USD 7 million (December 31, 2019: USD 7 million). The Bank has not earned any income from NDB-PPF for the year ended December 31, 2020 and 2019.

38. Reclassification of comparative figures

For the year ended December 31, 2020, the Bank presented interest received on debt instruments measured at amortised cost and proceeds from redemption of debt instruments measured at amortised cost separately in the net cash used in operating activities and net cash used in investing activities, respectively, in the statement of cash flows. As a result, USD 1 million has been reclassified from proceeds from redemption of debt instruments measured at amortised cost to interest received on debt instruments measured at amortised cost in the comparative figures of the statement of cash flows for the year ended December 31, 2020 to conform with current year presentation.

For the year ended December 31, 2019, USD 1 million bond issuance costs was included in other operating expenses. The Bank reclassified the bond issuance costs included in other operating expenses, to other expense for the year ended December 31, 2020. As a result, the comparative figure has been reclassified in the statement of profit or loss and other comprehensive income for the year ended December 31, 2020 to conform with current year presentation.

These reclassifications do not have a material impact on the information in the Bank's statement of cash flows and the statement of profit or loss and other comprehensive income.

39. Subsequent events

On December 24, 2020, a loan agreement for USD 1 billion was signed with the Federative Republic of Brazil to finance the Emergency Assistance Program in Combating COVID-19. This agreement became effective on January 15, 2021.

On January 6, 2021, a loan agreement for USD 323 million was signed with the Republic of India to finance Andhra Pradesh Roads and Bridges Reconstruction Project. This agreement became effective on January 26, 2021.

On January 6, 2021, a loan agreement for USD 323 million was signed with the Republic of India to finance Andhra Pradesh Mandal Connectivity and Rural Connectivity Improvement Project. This agreement became effective on January 26, 2021.

On January 21, 2021, a loan agreement for USD 300 million was signed with Mobile Telesystems Public Joint Stock Company to finance Cellular Network and Cloud Services Expansion Project. This agreement became effective on January 21, 2021.

On January 21, 2021, a loan agreement for EUR 100 million was signed with Black Sea Trade and Development Bank to finance Russian Maritime Sector Support Program. This agreement became effective on February 1, 2021.

On March 18, 2021, a loan agreement for CNY 7 billion was signed with the People's Republic of China to finance Emergency Assistance Program in supporting China's Economic Recovery from COVID-19. This agreement became effective on March 18, 2021.

On March 25, 2021, the bank issued a RMB 5 billion bond for a 3-year tenor with an annual fixed coupon rate of 3.22%.

Subsequent to December 31, 2020, the Bank issued several zero-coupon notes with aggregate notional amounts of USD 1.6 billion and one zero-coupon note of EUR 20 million with original maturity date within one year.

Subsequent to December 31, 2020, the paid-in capital due relating to the sixth instalment of USD 292 million was overdue from a founding member.

40. Approval of annual financial statements

The annual financial statements were approved by the Board of Governors and authorised for issuance on March 30, 2021.

NDB's PPF Financial Statements

for the Year Ended December 31, 2020

Lingang Distributed
Solar Power Project, China

Independent Auditor's Report

To the Board of Governors of the New Development Bank (the "bank")

Opinion

We have audited the financial statements of the New Development Bank Project Preparation Fund (the 'NDB-PPF'), which comprise the statement of financial position as at December 31, 2020, 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 NDB-PPF as at December 31, 2020, 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 NDB-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 Governors of the Bank for the financial statements

Management of the Bank is responsible for the preparation of the financial statements that give a true and fair view 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 of the Bank is responsible for assessing the NDB-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 NDB-PPF or to cease operations, or have no realistic alternative but to do so.

The Board of Governors of the Bank is responsible for overseeing the NDB-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 NDB-PPF'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 of the Bank'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 NDB-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 NDB-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, People's Republic of China

March 30, 2021

Statement of Profit or Loss and other Comprehensive Income

For the year ended December 31, 2020

Expressed in thousands of USD	Notes	Year ended December 31, 2020	Year ended December 31, 2019
Interest income	6	**98**	192
Operating expenses	7	**(50)**	(46)
Profit for the year		**48**	146
Total comprehensive income for the year		**48**	146

Statement of Financial Position
As at December 31, 2020

Expressed in thousands of USD	Notes	As at December 31, 2020	As at December 31, 2019
Assets			
Cash and cash equivalents	8	**7,322**	3,262
Due from banks other than cash and cash equivalents	9	**–**	4,000
Other assets		**4**	1
Total assets		**7,326**	7,263
Labilities			
Other liabilities		**43**	28
Total liabilities		**43**	28
Equity			
Contribution	10	**7,000**	7,000
Retained earnings		**283**	235
Total equity		**7,283**	7,235
Total equity and liabilities		**7,326**	7,263

The financial statements on pages 144 to 157 were approved and authorised for issuance by the Board of Governors on March 30, 2021 and signed on their behalf by:

Marcos Prado Troyjo
President

Leslie Warren Maasdorp
Chief Financial Officer

Paritosh Pandit
Chief Financial Controller

Statement of Changes in Equity

For the year ended December 31, 2020

Expressed in thousands of USD	Note	Contribution	Retained earnings	Total
As at January 1, 2020		**7,000**	**235**	**7,235**
Profit for the year		**–**	**48**	**48**
Total comprehensive income for the year		**–**	**48**	**48**
As at December 31, 2020		**7,000**	**283**	**7,283**

Expressed in thousands of USD	Note	Contribution	Retained earnings	Total
As at January 1, 2019		6,500	89	6,589
Profit for the year		–	146	146
Total comprehensive income for the year		–	146	146
Contribution	10	500	–	500
As at December 31, 2019		7,000	235	7,235

Statement of Cash Flows
For the year ended December 31, 2020

Expressed in thousands of USD	Year ended December 31, 2020	Year ended December 31, 2019
Operating activities		
Profit for the year	**48**	146
Operating cash flows before changes in operating assets and liabilities	**48**	146
Net decrease/(increase) in due from banks other than cash and cash equivalents	**4,000**	(4,000)
Net increase in other assets	**(3)**	(1)
Net increase/(decrease) in other liabilities	**15**	(2)
Net cash from/(used in) operating activities	**4,060**	(3,857)
Financing activities		
Contribution received	**–**	500
Net cash from financing activities	**–**	500
Net increase/(decrease) in cash and cash equivalents	**4,060**	(3,357)
Cash and cash equivalents at the beginning of the year	**3,262**	6,619
Cash and cash equivalents at the end of the year	**7,322**	3,262

1. General information

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

The NDB-PPF is established as a multi-donor fund that is open to contributions by all the Bank's members (the 'Contributors'). The objective of the NDB-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 NDB-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 in an amount of USD 4,000,000 to the NDB-PPF. The Bank also signed a contribution agreement with the Ministry of Finance of the Russian Federation (the 'Russian MOF') on October 15, 2017 in respect of the commitment and contribution from the Russian MOF in an amount of USD 1,500,000 which shall be paid in three instalments to the NDB-PPF. 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, 2020, all the contributions of USD 4,000,000, USD 1,500,000 and USD 1,500,000 has been received from China, India and the Russian MOF respectively by the NDB-PPF.

2. Application of international financial reporting standards

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

Amendments to IFRSs that are mandatorily effective for the current year
In the current year, the NDB-PPF has applied the *Amendments to References to the Conceptual Framework in IFRS Standards* and the following amendments to IFRSs issued by the IASB for the first time, which are mandatorily effective for the annual period beginning on or after January 1, 2020 for the preparation of the NDB-PPF's financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

The application of the *Amendments to References to the Conceptual Framework in IFRS Standards* and the amendments to IFRSs in the current year had no material impact on the NDB-PPF's financial positions and performance for the current and prior years and/or disclosures set out in these financial statements.

Notes to the Annual Financial Statements
For the year ended December 31, 2020

2. Application of international financial reporting standards – continued

New and amendments to IFRSs in issue but not yet effective
The NDB-PPF has not early adopted the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to IFRS 16	Covid-19-Related Rent Concessions[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[2]
Amendments to IFRS 9 and IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2[5]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[2]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018-2020[2]

1 Effective for annual periods beginning on or after January 1, 2023.
2 Effective for annual periods beginning on or after January 1, 2022.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after June 1, 2020.
5 Effective for annual periods beginning on or after January 1, 2021.

The NDB-PPF anticipates that the application of all the above new and amendments to IFRSs will have no material impact on the financial statements in the foreseeable future.

3. Basis of preparation and significant accounting policies

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 value at the end of each reporting period, and in accordance with the accounting policies set out below that are in conformity with IFRSs. These policies have been consistently applied throughout the year. For the purpose of preparation of the annual financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users.

The management of the Bank has, at the time of approving the annual financial statements, a reasonable expectation that the NDB-PPF has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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 NDB-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. Fair value for measurement and/or disclosure purposes in the financial statements is determined on such a basis, except for leasing transactions that are accounted for in accordance with IFRS 16, 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.

3. Basis of preparation and significant accounting policies – continued

Basis of preparation – continued

Analysis of fair value disclosures uses a hierarchy that reflects the significant inputs used in measuring the fair value. For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety. The fair value hierarchy is as below.

- **Level 1:** Quoted prices (unadjusted) in active markets for the financial assets or the liabilities that the NDB-PPF can access at the measurement date;
- **Level 2:** Inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- **Level 3:** Inputs are unobservable inputs for the asset or liability.

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

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

Revenue

Interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

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 NDB-PPF's financial instruments mainly consist of cash and cash equivalents and due from banks other than cash and cash equivalents.

Financial assets and financial liabilities are recognised in the statement of financial position when the NDB-PPF becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ('FVTPL')) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Notes to the Annual Financial Statements
For the year ended December 31, 2020

3. Basis of preparation and significant accounting policies – continued

Financial instruments – continued
Classification and subsequent measurement of financial instruments
Financial assets
The NDB-PPF classifies its financial assets under IFRS 9 *Financial instruments* depending on the NDB-PPF's business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

Financial assets measured at amortised cost
The NDB-PPF classifies an asset measured at amortised cost when the following conditions have been met:
- The financial asset is held within a business model whose objective to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI') on the principal amount outstanding.

The NDB-PPF applies the effective interest method to the amortised costs of a financial asset. Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments subsequently measured at fair value through other comprehensive income ('FVTOCI').

Financial assets classified as at FVTOCI
The NDB-PPF classifies debt instruments at FVTOCI if they are held within a business model whose objective is achieved by both selling and collecting contractual cash flows and the contractual terms of financial asset give rise on specified dates to 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. Impairment allowances are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts of these debt instruments. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Financial assets at FVTPL
All other financial assets are subsequently measured at FVTPL, except that at the date of initial recognition of a financial asset the NDB-PPF 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.

A financial asset is held for trading if:
- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the NDB-PPF may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

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. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'net gains on financial instruments at fair value through profit or loss' line item.

3. Basis of preparation and significant accounting policies – continued

Financial instruments – continued

Classification and subsequent measurement of financial instruments – continued

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is 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 NDB-PPF 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 or a financial guarantee contract.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated at FVTPL upon initial recognition if:

- It eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL
- 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 NDB-PPF's key management personnel.

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Financial liabilities at amortised cost

Other financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Impairment

The NDB-PPF performs impairment assessment under expected credit loss ('ECL') model on financial assets which are subject to impairment assessment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition. 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.

3. Basis of preparation and significant accounting policies – continued

Financial instruments – continued

Impairment – continued

The NDB-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:

(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 (net of impairment allowance) rather than the gross carrying amount. The NDB-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 NDB-PPF derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers its rights to the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the NDB-PPF neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the NDB-PPF recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the NDB-PPF retains substantially all the risks and rewards of ownership of a transferred financial asset, the NDB-PPF continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the carrying amount of the financial asset derecognised and the consideration received and receivable is recognised in profit or loss. On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in FVTOCI reserve is reclassified to profit or loss. On derecognition of an investment in equity instrument which the NDB-PPF has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is not reclassified to profit or loss, but is transferred to retained earnings.

The NDB-PPF derecognises financial liabilities when, and only when, the NDB-PPF's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Cash and cash equivalents

Cash comprises of cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are the NDB-PPF's short-term, highly liquid investments that are readily convertible to cash within three months and are subject to an insignificant risk of changes in value.

4. Financial risk management

Overview

All the financial instruments of the NDB-PPF as of December 31, 2020 and 2019 are measured at amortised cost.

The NDB-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 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. The management of the Bank and various specialist committees are tasked with integrating the management of risk into the day-to-day activities of NDB-PPF, by monitoring related risk parameters and tolerance through policies and procedures under the strategy approved by designated committees.

The NDB-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 year ended December 31, 2020. The impact of a change in interest rates during the reporting year is not considered significant by management.

Credit risk

The NDB-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 NDB-PPF placed its cash equivalents and deposits 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, 2020.

5. Fair value of financial assets and liabilities

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

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

Notes to the Annual Financial Statements
For the year ended December 31, 2020

6. Interest income

	Year ended December 31, 2020 USD'000	Year ended December 31, 2019 USD'000
Interest income from banks	**98**	192
Total	**98**	192

7. Operating expenses

	Year ended December 31, 2020 USD'000	Year ended December 31, 2019 USD'000
Auditor's remuneration	**50**	46
Total	**50**	46

8. Cash and cash equivalents

	As at December 31, 2020 USD'000	As at December 31, 2019 USD'000
Demand deposit	**7,322**	172
Time deposit with original maturity within three months	**–**	3,090
Total	**7,322**	3,262

9. Due from banks other than cash and cash equivalents

	As at December 31, 2020 USD'000	As at December 31, 2019 USD'000
Commercial banks	–	7,090
Total	–	7,090
Less: Time deposit with original maturity within three months	–	(3,090)
Total	–	4,000

10. Contribution

As at December 31, 2020	Contribution Committed USD'000	Contribution Received USD'000
China	**4,000**	4,000
Russia	**1,500**	1,500
India	**1,500**	1,500
Total	**7,000**	7,000

As at December 31, 2019	Contribution Committed USD'000	Contribution Received USD'000
China	**4,000**	4,000
Russia	**1,500**	1,500
India	**1,500**	1,500
Total	**7,000**	7,000

Notes to the Annual Financial Statements

For the year ended December 31, 2020

11. Related party disclosures

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

The Bank is entrusted with the administration of the NDB-PPF to fulfil its purpose. The NDB-PPF has not incurred any management fees to the Bank for its administration of the NDB-PPF for the year ended December 31, 2020 and 2019.

12. Subsequent events

Up to the date of the issuance of the financial statements, there has been no material subsequent events since December 31, 2020 that would require additional disclosure or adjustment to the financial statements.

13. Approval of annual financial statements

The financial statements were approved by the Management and the Board of Governors of the Bank and authorised for issuance on March 30, 2021.

List of initialisms and definitions

Acronym/Defined Term	Definition
2030 Agenda	United Nations 2030 Agenda for Sustainable Development
ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
AoA or the Agreement	Articles of Agreement
AE	Advanced Economies
AI	Artificial Intelligence
AML	Anti-Money Laundering
APAC	Asia-Pacific
ARC Committee	Audit, Risk and Compliance Committee
BHRC Committee	Budget, Human Resources and Compensation Committee
BNDES	Brazilian Development Bank
BoD	Board of Directors
BoG	Board of Governors
BRICS	Brazil, Russia, India, China and South Africa
CAI	China-EU Investment Agreement
CHF	Swiss Franc
CIC	Credit and Investment Committee
CMF	Capital Management Framework
CO2	Carbon Dioxide
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
CUR	Capital Utilisation Ratio
EAD	Exposure at Default
ECL	Expected Credit Loss
ECP	Euro Commercial Paper
EDB	Eurasian Development Bank
EFD 2020-2031	Brazil's Federal Development Strategy 2020-2031
EMDCs	Emerging Market Economies and Developing Countries
EMEA	Europe, Middle East and Africa
EMTN	Euro Medium Term Note
ESF	Environment and Social Framework
ESG	Environmental, Social and Governance
ERC	Eurasian Regional Centre
ESKOM	Eskom Holdings SOC Ltd
EUR	Euro
FBS	Federal Bailiffs' Service (Russia)
FC	Finance Committee
FVTOCI	Fair Value through other Comprehensive Income
FVTPL	Fair Value through Profit and Loss

List of initialisms and definitions – continued

Acronym/Defined Term	Definition
GoB	Government of the Federative Republic of Brazil
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GoI	Government of the Republic of India
GoRF	Government of the Russian Federation
GoSA	Government of the Republic of South Africa
GWh	Gigawatts-hour
HDI	Human Development Index
IASs	International Accounting Standards
IASB	International Accounting Standards Board
IAD	Internal Audit Division
IDC	Industrial Development Corporation of South Africa
IE	Independent Evaluation Office
IFRIC	International Financial Reporting Interpretations Committee
IFRSs	International Financial Reporting Standards
IIB	International Investment Bank
IMF	International Monetary Fund
INR	Indian rupee
ISAs	International Standards on Auditing
ISDA	International Swaps and Derivatives Association
IT	Information Technology
JSSP	Judicial System Support Project (Russia)
km	Kilometre
kWh	Kilowatt-hour
KMP	Key Management Personnel
LEED-NC	Leadership in Energy and Environmental Design-New Construction
LGD	Loss Given Default
m^3	Cubic metre
Management	President and Vice Presidents
MCC	Moscow City Court
MDB	Multilateral Development Bank
mg	Milligram
MVA	Mega-volt ampere
MW	Megawatt
MWh	Megawatt-hour
NDB or the Bank	New Development Bank
NII	Net Interest Income
OECD	Organisation for Economic Co-operation and Development

List of initialisms and definitions – continued

Acronym/Defined Term	Definition
Paris Agreement	Paris Agreement on Climate Change
PIT-PD	Point-in-time Probability of Default
PPF	Project Preparation Fund
PRP	Post Retirement Plan
RCEP	Regional Economic Comprehensive Partnership
Reg S	Regulation S for U.S. and Non-U.S. companies to raise capital outside the U.S.
RE-IPP	Renewable Energy Independent Power Producer
RMB	Chinese renminbi
RUB	Russian rouble
SANRAL	South African National Roads Agency SOC Ltd
SDG	Sustainable Development Goal
SMEs	Small and medium-sized enterprises
SO_2	Sulphur Dioxide
SOE	State-owned Enterprise
SPPI	Solely Payments of Principal and Interest
SRP	Staff Retirement Plan
TCTA	Trans-Caledon Tunnel Authority
UNDP	United Nations Development Program
USD	United States dollar
USSR	Union of Soviet Socialist Republics
VaR	Value-at-Risk
WARR	Weighted Average Risk Rating
YoY	Year-on-year
ZAR	South African rand

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