New Development Bank
Policy on Loans without Sovereign Guarantee to National Financial Intermediaries

Owner: Vice Presidency for Operations

Version: 2021 V1

Approved Date: January 21, 2016

Change Log

Revision Date	Chapter revised	Revision Details
December 2021		Change log as presented at the 33rd Board meeting held on 14 December 2021

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Abbreviations

BOD	Board of Directors of the New Development Bank
EURIBOR	European inter-bank offered rate
LIBOR	London inter-bank offered rate
NDB	New Development Bank
NFIs	National Financial Intermediaries
SOFR	Secured Overnight Financing Rate

New Development Bank: Policy on Loans without Sovereign Guarantee to National Financial Intermediaries

A. Introduction

1. This Policy on Loans without Sovereign Guarantee to National Financial Intermediaries allows loans without sovereign guarantee to national financial intermediaries (NFIs) as further described in this Policy.

B. Eligible Clients

2. The NFI to engage with New Development Bank (NDB) shall
   (i) be an institution with developmental mandate in one or more sectors within the member country.
   (ii) be wholly or majority[1]-owned by the national government of a member country.
   (iii) have the legal capacity to borrow and to finance projects that are eligible for NDB funds according to the NDB's Article of Agreement.

C. Lending Currency and their Terms

a. Currency of loans

3. NDB provides US dollar denominated loans linked to 6 month London inter-bank offered rate (LIBOR)[2]. Euro denominated loans, when available, will be linked to 6-month European inter-bank offered rate (EURIBOR). The lending rates are reset every 6 months on interest payment date. NDB endeavors to provide loans denominated in the national currencies of its member countries. National-currency loans will be linked to a suitable national market-benchmark interest rate or NDB's cost of raising national-currency resources. The lending rates for national currency loans are reset in accordance with agreed principles and client requirements.[3]

b. Pricing of loans

4. NDB provides loans at floating interest rates linked to an appropriate bench-mark rate <u>plus</u> a spread determined at the time of loan approval. The pricing of NDB loans is cost of funds of NDB plus an applicable lending spread. The lending spread covers

[1] Holding more than 50% of the voting (ordinary) shares.
[2] Given discontinuation of LIBOR, NDB will advise of appropriate replacement Benchmark to be used (such as SOFR)
[3] The treasury department will update and advise the appropriate governing body and the BOD periodically (six monthly) about the cost of funds and the commitment fee to be charged for national currency loans.

operations costs and provides a reasonable "risk adjusted return" on capital adopting a risk-based approach with due regard to country risk, project risk, maturity premium, probable loan provisions etc. The risk adjusted return on capital follows the Bank's pricing framework and it is approved by the appropriate governing body. When deciding the risk adjusted return on capital, the governing body will take into consideration, among others, the share of capital held by the national government of the member country in the NFI, the existence of legal or financial arrangements that amount to an implicit guarantee and developmental mandate of the NFI for its member country.

5. NDB levies a front end fee to recover processing and administration cost of loans, and a commitment charge to defray costs of keeping adequate liquidity to meet the disbursement needs of its clients.

c. Loan conversion (currency and interest rate) options

6. Subject to the availability of viable swap market opportunities, loans to NFIs can avail conversion options[4].

d. Loan term and repayment schedule

7. The availability and repayment period will depend on the nature and objectives of projects financed, and the NFI's cash flows and ability to manage long-term interest rate and foreign exchange risks. The average repayment maturity could be up to 19 years including a grace period of up to 5 years[5].

8. NDB offers flexible repayment options ranging from straight-line repayment schedule, annuity method, tailor-made option to align repayment with project's cash-flow pattern, equated debt service installments, bullet repayments, and repayments linked to actual disbursements.

D. Assessment

9. NDB shall identify a suitable NFI in a member country to channel NDB resources for infrastructure and sustainable development projects. The assessment criteria include: (i) relevant macroeconomic environment, and regulatory framework and the soundness of financial system in the borrowing country; (ii) legal and institutional suitability of the institution to engage with NDB; (iii) financial soundness of the

[4] This facility will not be available till NDB makes adequate arrangements to hedge currency/interest rate conversion risk

[5] Average repayment maturity is calculated as the average of the number of years until each principal repayment amount is due, weighted by the principal repayment amounts. Average maturity = (Sum of weighted repayments/Sum of total repayment).

national institution reflected in capital adequacy, asset quality, liquidity, and profitability; (iv) management policies and standards of corporate and financial governance, including, among other things, compliance with prudential regulations for exposure limits, and transparent financial disclosure policies and practices; (v) internal procedures for credit assessment, risk management and project appraisal and approval; (vi) capabilities to assess the social and environmental impact of subprojects and monitor the compliance in managing the impacts in accordance with national standards; (vii) soundness of business strategy, plans, and track record in the sectors targeted by NDB; (viii) autonomy in pricing decisions; and (ix) anti-money laundering mechanisms.

10. NDB extends financing under this Policy only if the national government of the member country, where the sub-projects will be implemented has no objection. The national government's no objection is to be obtained before the transaction is to be submitted to the BOD for approval.

11. Loans to NFIs will be processed using the procedures outlined in the NDB's Policy on Transactions without Sovereign Guarantee (Part 2: Processes and Responsibilities).

E. Use of funds

12. NDB provides funds to the selected NFIs to achieve clearly defined strategic priorities of the member government and NDB. The size of the loan depends on the member country's needs, NDB's exposure limits, and financial assessment of the borrowing institution. The selected NFI utilizes NDB loans for financing one or more projects (back-to-back loan or two-step loan), all termed as sub-projects[6]. The loan could be made available for a drawdown period of up to 5 years. The maximum and minimum size of sub-loan under loan, if appropriate may be established during appraisal.

13. NDB and the NFI agree, during the appraisal of the loan, on the criteria for selection of sub-projects and also, if appropriate, on a "free limit" below which the NFI approves sub-loans meeting the selection criteria without taking prior approval from NDB and submits only the necessary information as per legal agreements governing the loan. The free limit is determined taking into account appraisal capacity and processes of the NFI, prior experience in administering similar loans, sub-loan size, and environment and social risks.

14. Sub-loans above the free limit need prior NDB approval to qualify for NDB funding under the loan.

[6] In case of prepayment of a sub-loan for a sub-project, during the tenor of the NDB facility, the NFI can redeploy NDB funds to other qualifying sub-projects.

15. NDB and the NFI may agree on an "appraisal floor" above which NDB will appraise the sub-project either independently or jointly before the same is presented by the NFI to its governing bodies for approval.

F. Procurement

16. Procurement for projects under this Policy will be in accordance with the principles of NDB's procurement policy and member country systems. The NFI is required to make adequate arrangements for effective supervision of procurement under sub-projects. Arrangements for procurement management will be assessed and agreed during appraisal.

G. Environment and Social Framework

17. The NFI needs to have suitable system to manage the environment and social impact of activities financed by NDB funds to comply with principles of NDB's environment and social framework and member country systems. Arrangements for managing environment and social impacts will be assessed and agreed during appraisal.

H. Retroactive Financing

18. NDB may finance amounts disbursed by the NFI to sub-projects up to 20% (twenty per cent) of the loan amount, and not earlier than 12 (twelve) months prior to signing of the loan agreement between NDB and the NFI, unless otherwise decided by the BOD.

I. Monitoring

19. NDB and the NFI will establish a system to ensure (i) NDB resources are used in accordance with the criteria indicated in the loan agreement; and (ii) the NFI has capacity to monitor the quality of portfolio of sub-projects financed with NDB funds. NDB also (i) monitors the financial soundness, solvency, profitability, and regulatory compliance of the borrowing institution; and (ii) requires submission of audited financial statements that are prepared in accordance with acceptable standards and audited annually by independent auditors acceptable to NDB. NDB may suspend disbursements under the loan agreement if the NFI is among other things, in breach of performance standards with respect to financial covenants, quality of sub-project portfolio, and corporate governance for a prolonged period of time as provided for in the loan agreement.

J. Review of the Policy

20. NDB may on an annual basis review and modify the Policy based on the experience gained in implementing the Policy.