11009

New Development Bank

Chief Analyst Atsushi Masuda
Chief Analyst Toshihiko Naito

Long-term Rating	AAA
Outlook*	Stable
Short-term Rating	-

*Long-term Rating refers to Long-term Issuer Rating in principle.

1. Overview

New Development Bank (NDB) is a multilateral development bank (MDB) founded by the five BRICS countries: Brazil, Russia, India, China and South Africa. It aims to provide financial support for the infrastructure and sustainable development projects in BRICS and other emerging economies. Its headquarters is in Shanghai, PRC with three regional offices located in Johannesburg, Sao Paulo and Moscow, and one sub-office in Brasilia. It is planning to open a new office in India. Like other MDBs, NDB is entitled to various immunities and privileges under provisions of its establishment agreement. As of the end of 2020, it had USD 18.8 billion in total assets, USD 10.3 billion in equity capital and USD 6.6 billion in loans and advances with 185 employees.

2. Support from Member States

The establishment of NDB was announced at the BRICS Summit in March 2013, and it started its full operations in February 2016 based on the establishment agreement signed in July 2014. It aims to provide financial support for the infrastructure and sustainable development projects undertaken by sovereign and non-sovereign sectors in BRICS and other emerging economies. The agreement allows membership to any members of the United Nations, but it restricts that the five founding members shall not reduce their combined voting rights below 55%, that the non-borrowing countries shall not increase their combined voting rights above 20% and that a new member shall not have a voting right above 7%. For the first time since its establishment, Bangladesh, Egypt, United Arab Emirates (UAE), and Uruguay were admitted by NDB's Board of Governors to become new members in 2021. Bangladesh and UAE, which have become official members after depositing their instruments of accession, have a combined voting share of less than 3%. Of its USD 100 billion initial authorized capital, USD 50 billion was a subscribed capital to be equally furnished by the five BRICS. Following official accession of the two new members, the subscribed capital increased to USD 51.5 billion. The subscribed capital consists of USD 10.3 billion paid-in capital and USD 41.2 billion callable capital. The paid-in capital is to be paid in seven installments, with the payment by the five founding members due to be completed by January 2022. Their payments have almost been proceeding as scheduled. A statement made by the BRICS Summit in September 2021 endorsed a further expansion of membership and crucial role of NDB's operations. The support from its member countries remains strong. As demand for infrastructure investment is expected to grow in emerging countries, JCR is paying close attention to the expansion of member countries.

3. Description of Businesses

NDB makes development finance including loans, equity investment and guarantees to the sovereign and non-sovereign sectors. Total approvals of development finance in 2020 surged to USD 10.3 billion from USD 7.2 billion a year earlier due to the provision of COVID-19 emergency assistance totaling USD 6 billion for the enhancement of medical systems and anti-pandemic measures in the member countries. The cumulative total of approvals was USD 25.7 billion and 72 projects at the end of 2020, comprising 86% of sovereign loans and 14%

of non-sovereign loans. Over time, NDB expects to extend around 70% of its loans to sovereign borrowers, with remaining 30% for non-sovereign borrowers. Credit risks pertaining to sovereign loans are relatively low because of NDB's preferred creditor status. Non-sovereign loans are mostly either subleased through state-owned banks or lent to finance high-quality infrastructure projects involving state-owned enterprises. Of its cumulative approvals by country, India, China, Brazil, South Africa, and Russia accounted for 28%, 20%, 20%, 18%, and 14%, respectively. A sector-by-sector breakdown shows that anti-pandemic measures ranked top with a 25% share, followed by transport infrastructure (23%), clean energy and urban development (14% each), irrigation, water resource management and sanitation (8%), environmental efficiency (5%), social infrastructure (4%), digital infrastructure (1%) and others (6%). Total approval of development finance in the first nine months of 2021 totaled USD 5.5 billion (USD 3.1 billion for the additional COVID-19 emergency assistance). The cumulative total approval increased to USD 29.1 billion.

In July 2020, Marcos Troyjo, who had served as vice minister of the Brazilian Ministry of Economics and in other senior posts, became the second president of NDB. The president pledged to expand the bank's operations through initiatives including enhancement of its own profile, expansion of membership, provision of more sophisticated financial instruments, promotion of innovation through infrastructure investments, expansion of loans denominated in the currencies of member countries, improvement of the quality of projects, diversification of treasury investment and funding, and promotion of organizational reforms aimed to enhance ESG and the private sector.

4. ESG Factors

When assessing risks involving MDBs, JCR pays attention to identification, evaluation, and management of environmental, social and governance factors in their development finance projects. NDB ensures all projects are implemented in a sustainable way, and assesses and minimizes the impacts of ESG factors on them. Most of the cumulative investment and loan approvals are for ESG-related projects, such as assistance to the pandemic and infrastructure investments. Since the end of 2015, NDB has been implementing its Environment and Social Framework to conduct its operations from the perspectives of inclusive and sustainable development, use of country and corporate systems, environmental and social interests, climate change, conservation of natural resources, gender equality, precautionary approach, and complementing the ongoing initiatives taken by other MDBs and regional financial institutions. As a result of those efforts, NDB has not encountered any major issues related to ESG factors to date, and JCR sees no need to factor them into the rating.

5. Financial Position

NDB's asset quality remains sound and its capital base stays solid. As of end 2020, close to 50% of its assets are cash and deposits held for liquidity purposes, with loans and equity investments still accounting for just over 30%. Equity investments are still marginal in volume. About 70% of its loans outstanding are bound for sovereign borrowers, with the remaining 30% for non-sovereign borrowers. Unlike other MDBs which primarily finance the poorest countries, the quality of NDB's loans is relatively sound because it mainly targets BRICS. Its loans concentration is high like other MDB. Nonetheless, it has not incurred any nonperforming loans to date. The impact of the pandemic forced NDB to increase its impairment provisions moderately in 2020, but they have been sufficiently absorbed by its pre-provision profit. In the first half of 2021, impairment provisions turned to reversal. As NDB's loans and equity investments rapidly grew during a short period of operation, its equity-to-assets ratio dropped to 50% at the end of 2020 from 80% at the end of 2019 but it still remained extremely high. The capital utilization ratio, which takes into account the risk of assets, rose from 4% to 10% in the same period, but it still stayed significantly low. JCR expects that those ratios may deteriorate amid the expansion of development finance in the future but holds that NDB will retain its sufficient capitalization. The bank has never relied on callable capital, but can call it in case of need. Like other MDBs, NDB does not aim to maximize profits but secures profits needed to promote its operational mandate.

6. Risk Management

NDB conservatively manages risks through its Enterprise Risk Management and Risk Appetite Framework. The governance of risk management is based on three lines of defense and the framework defines bank-wide risk management principles and risk tolerances. As to capital adequacy, NDB has established its own capital management policy and sets and manages financial indicators such as the equity-to-assets ratio (minimum 25%), the capital utilization ratio (maximum 90%) and limitations on operations (maximum 100%). All those indicators were fully met as of the end June 2021. NDB uses data from rating agencies when assessing risks related to sovereign loans and relies on its own internal ratings in addition to data from rating agencies when assessing risks pertaining to non-sovereign loans. Under this formula, the weighted average rating remained investment grade as the end of 2020. As to interest rate and foreign exchange risks, NDB uses derivatives to reduce risks arising from mismatches between the terms of assets and liabilities and those between currencies. The bank's liquidity guideline requires it to constantly hold enough liquid assets to cover necessary funds in the next 12 months. As the end of June 2021, the ratio was sufficiently compliant with the requirement.

7. Financing Activities

On top of utilizing paid-in capital, NDB has been ramping up its external financing through issuance of bonds denominated in USD and local currencies of member countries in anticipation of future expansion of its development finance. For placement in the international capital markets, it registered a USD CP program in April 2019 and a Medium-Term Note program in December 2019. For the domestic capital markets in the member countries, it registered issuance programs for ZAR-denominated bonds in April 2019, RUB-denominated bonds in November 2019 and RMB-denominated bonds in October 2020. During 2020, NDB issued RMB 5 billion and RMB 2 billion bonds in China in April and July respectively to finance its emergency support for anti-pandemic measures. It registered the second RMB bond program in October. It also issued inaugural USD 1.5 billion bond in June, USD 2 billion bond in September, and USD 50 million in December. In 2021, it issued RMB 5 billion bonds in March and RMB 2 billion bonds in September. It also issued USD 1.5 billion bonds in April and USD 2.25 billion bonds in July.

8. Conclusion and Rating Outlook

The rating mainly reflects the strong support the bank enlists from its member countries for its operations, its solid capitalization, its conservative risk management policies and its status as a preferred creditor. NDB continues to receive solid support from the member countries as the governments of BRICS keep their policy to utilize it as a core institution to finance infrastructure and sustainable development. In 2021, Bangladesh, Egypt, UAE and Uruguay were admitted by NDB’s Board of Governors to become new members. NDB has been expanding its loan portfolio in line with its strategic plan and approved more than USD 9 billion worth of emergency support from 2020 to help member countries combat with the COVID-19 pandemic. The impact of the pandemic on NDB’s financial structure remains limited so far and JCR has affirmed the rating with a Stable outlook.

Although the possibility is small at present, there can be downward pressure on the rating when approvals are not obtained from the members for a new capital increase needed to address future expansion of development finance or when the bank's asset quality deteriorates due to increased provision of non-sovereign loans.

11009 New Development Bank

Selected Financial Indicators

(USD million)

	2016	2017	2018	2019	2020
Total assets	10,054	10,224	10,402	11,821	18,844
Loans and advances	0	24	628	1,545	6,612
Interest bearing debt	403	449	444	1,616	8,371
Authorized capital	100,000	100,000	100,000	100,000	100,000
Subscribed capital	50,000	50,000	50,000	50,000	50,000
Callable capital	40,000	40,000	40,000	40,000	40,000
Paid-in capital	10,000	10,000	10,000	10,000	10,000
Total equity	9,605	9,769	9,945	10,172	10,333
Net interest income	22	50	110	198	181
Impairment losses	0	0	4	2	38
Profit for the year	228	158	166	223	150
(Major internal risk management metrics)					
Equity to asset ratio (minimum 25%)	-	89	92	80	50
Capital utilization ratio (maximum 90%)	-	-	5	4	10
Limitations on operation (maximum 100%)	-	21	21	24	37
Primary liquidity ratio (minimum 100%)	-	1,148	525	163	125

(Note) figures in parentheses are internal threshold
Source: NDB Annual Reports

Ratings

	Rating	Outlook*	Amount (millions)	Currency	Rate (%)	Issue Date	Maturity Date	Release
Long-term Issuer Rating	AAA	Stable	-	-	-	-	-	2021.12.24

History of Long-term Issuer Rating

(Long-term Issuer Rating or its equivalent)

Date	Rating	Outlook*	Issuer
2019.08.20	AAA	Stable	New Development Bank

*Outlook for long-term issuer rating, or direction in case of Credit Monitor

Japan Credit Rating Agency, Ltd.
Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026