

## ACRA AFFIRMS AAA TO NEW DEVELOPMENT BANK, OUTLOOK STABLE, UNDER THE INTERNATIONAL SCALE AND AAA(RU), OUTLOOK STABLE, UNDER THE NATIONAL SCALE FOR THE RUSSIAN FEDERATION

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PRESS RELEASE

The affirmation of the credit rating of **New Development Bank** (hereinafter, NDB, or the Bank) reflects ACRA's baseline expectations that over the next 12 to 18 months the Bank will retain its stable standalone financial indicators, including strong capitalization and liquidity metrics and adequate asset quality, and continue to perform important functions for the founding countries.

Five shareholder countries founded NDB in 2015, becoming its equal owners with identical shares of participation. Since then the structure of the founders has expanded due to minority shares of the new member countries. ACRA believes that the growth of the number of shareholders will continue and become regular, negotiations with potential shareholders are underway. It is noteworthy that the original five founders intend to retain their controlling stake.

NDB's core activities include financing infrastructure projects with a strong emphasis on Environmental, Social, and Governance (ESG) issues in developing economies and transition economies, as well as promoting economic cooperation among the shareholder countries. At the same time, as a one-time event, the active growth (more than doubling) of the loan portfolio last year was the result of NDB's involvement in the fight against the coronavirus pandemic — for these purposes, the Bank issued long-term loans worth about USD 6 bln (approximately 40% of the loan portfolio at the beginning of 2022). ACRA expects that NDB, while still a young organization, is likely to continue with a relatively notable annual portfolio growth of 20–25% in 2022–2023.

As of early March 2022, approximately 25–30% of the loan portfolio is in each of the countries, China and India, 21% in South Africa, and 10–15% each in Russia and Brazil.

### KEY ASSESSMENT FACTORS

**The Bank's management quality, strategy, and operational transparency are strong.** The Bank's management and governance boards consist of senior industry experts from the shareholder countries with extensive relevant private and public sector experience, including staff who joined NDB from leading multilateral development institutions such as the IMF and World Bank. ACRA believes that the management team and operational effectiveness of NDB are suitable to meet the needs required to run the Bank successfully in terms of risk mitigation and capital generation. The Bank's financial statements are published on a quarterly basis and all lending and funding projects are publicly disclosed. The senior management of the Bank are appointed on a rotational basis. ACRA notes the lack of vetoing power by shareholders.

**The Strong capital position** continues to be determined by the high capital adequacy ratio (the ratio of total capital to assets and contingent liabilities, excluding highly liquid short-term investments), which was 43% at the beginning of the year. The Agency expects this indicator to remain above 30% over the next 12 to 18 months.

ACRA positively assesses the significant, as yet unused, amounts of capital support from the founders and their desire to support the Bank on a regular basis and in case of stress. As of the end of March 2022, NDB's subscribed capital stood at around USD 51.5 bln, of which only USD 10.3 bln was paid-in capital.

The neutral profitability of NDB is in line with its mandate as a transnational development institution. Additional pressure on the financial result in 2022 may come from the need to create slightly higher-than-usual impairment reserves due to global economic risks. A notable increase in operating expenses could also lead to a decrease in performance this year, as the Bank is still in a developing phase.

**ACRA assesses NDB's risk profile as adequate.** Besides high underwriting standards and advanced risk management practices, the Agency's assessment takes into account the absence of impaired positions in the portfolio as of the start of the year. It cannot be ruled out that pressure on the quality of assets may grow as loans mature and the volume of operations increases, especially in jurisdictions with speculative ratings. Increasing global economic and geopolitical risks may add to this. At the same time, expansion into new markets will help NDB to achieve higher diversity of operations.

As of the start of March 2022, receivables from the Russian Federation and counterparties operating in this country amounted to around 13% of the loan portfolio. Amid the current sanctions, these receivables may become a source of additional impairment reserves. Due to this, NDB has decided to temporarily stop participating in new projects related to the Russian Federation.

The presence of high concentrations on the balance sheet continues to constrain the risk profile assessment — the 20 largest borrowers accounted for about 85% of the loan portfolio at the beginning of the year, while the 10 largest credit exposures (including treasury assets) accounted for about 147% of the Bank's equity as of the same date. In addition, NDB's mandate involves financing long-term projects with lengthy investment periods (according to the Agency's assessment, the weighted average maturity of the loan portfolio is around 20 years). Risks continue to be mitigated by the large volume of loans guaranteed by sovereigns (more than 80% of issued loans and undrawn contingent liabilities) and NDB's privileged lender status, which corresponds to the international practice of interaction with similar organizations.

**NDB's liquidity and funding position is strong.** Equity, although having given way to issued debt securities in 2021, continues to be a significant source of core business financing, contributing to the stability of NDB's resource base. As of the start of the year it amounted to 43% of the balance sheet. Although, ACRA expects this share to decline to 35–40% in 2022–2023, it will continue to be high. The Agency assumes that the Bank's high credit ratings and strong reputation will enable it to maintain investors' interest in new debt issues despite the uncertain external environment.

The share of highly liquid assets declined to around a third of the balance sheet as of the start of the year amid rapid growth of lending last year, and this trend is likely to continue over the next 12–18 months. Nevertheless, ACRA assumes that risks continue to be manageable due to NDB's stable resource base.

**ACRA assesses support from the shareholder countries as moderately high.** This assessment is supported by two elements — ACRA's view that the importance of NDB's operations for the

main member countries is at the highest possible level and their adequate average creditworthiness assessment.

**NDB's credit rating is AAA(RU), outlook Stable, under the national scale for the Russian Federation** as per the [Methodology for Mapping Credit Ratings Assigned on ACRA's International Scale to Credit Ratings Assigned on ACRA's National Scale for the Russian Federation](#).

### KEY ASSUMPTIONS

- Maintaining systemic importance to the shareholder countries;
- Maintaining robust credit underwriting standards and as a result, maintaining strong asset quality;
- Maintaining very high capitalization levels within the 12 to 18-month horizon despite an increase in operations;
- Maintaining a high level of liquidity.

### POTENTIAL OUTLOOK OR RATING CHANGE FACTORS UNDER THE INTERNATIONAL SCALE

The **Stable outlook** assumes that the rating will highly likely stay unchanged within the 12 to 18-month horizon.

#### A negative rating action may be prompted by:

- ACRA's opinion regarding a substantial deterioration in the creditworthiness of the member countries resulting in a weaker credit profile for NDB;
- Decrease of systemic importance for the key shareholder countries;
- Disagreements between the shareholder countries amid tense geopolitical situation in the world;
- Substantial deterioration of capital adequacy;
- Substantial deterioration of liquidity and funding;
- Heightened concentration of assets for a long period of time.

### POTENTIAL OUTLOOK OR RATING CHANGE FACTORS UNDER THE NATIONAL SCALE FOR THE RUSSIAN FEDERATION

The **Stable outlook** assumes that the rating will highly likely stay unchanged within the 12 to 18-month horizon.

#### A negative rating action may be prompted by:

- Multi-notch downgrade of NDB's credit rating under the international scale.

### RATING COMPONENTS UNDER THE INTERNATIONAL SCALE

Standalone creditworthiness assessment (SCA): **aaa**.

Adjustments: none.

## REGULATORY DISCLOSURE

The credit rating has been assigned to New Development Bank under the international scale based on the [Methodology for Assigning Credit Ratings under the International Scale to International Financial Institutions and Other Supranational Development Institutions](#). The credit rating has been assigned to New Development Bank under the national scale for the Russian Federation based on the [Methodology for Mapping Credit Ratings Assigned on ACRA's International Scale to Credit Ratings Assigned on ACRA's National Scale for the Russian Federation](#) and the [Key Concepts Used by the Analytical Credit Rating Agency within the Scope of Its Rating Activities](#).

The credit ratings under the international scale and the national scale for the Russian Federation were published by ACRA for the first time on January 23, 2020. The credit ratings and their outlooks are expected to be revised within 182 days following the publication date of this press release as per the [Calendar of sovereign credit rating revisions and publications](#).

The credit ratings were assigned based on data provided by New Development Bank, information from publicly available sources, and ACRA's own databases. The rating analysis was performed using the IFRS financial statements of New Development Bank. The credit ratings are solicited, and New Development Bank participated in their assignment.

In assigning the credit ratings, ACRA used only information, the quality and reliability of which was, in ACRA's opinion, appropriate and sufficient to apply the methodologies.

ACRA provided no additional services to New Development Bank. No conflicts of interest were discovered in the course of the credit rating assignment.

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