

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

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The affirmation of the credit rating of **New Development Bank** (hereinafter, NDB, or the Bank) reflects ACRA's baseline expectations that despite plans to increase operational activities, 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. The Agency continues to assume that the historically stable and predictable resource base (including the amount of shareholders' paid-in capital in the balance sheet structure, which continues to be significant), as well as the conservative liquidity management inherent to the Bank, made it possible to mitigate some difficulties associated with the changing geopolitical situation last year. If the implementation of plans for a sustainable, moderately high rate of expansion of the loan portfolio over the next 12–18 months is successful, this will serve as a sign that the Bank has reduced the negative impact of geopolitical factors on the stability of its business model, including its resource base.

Five shareholder countries that are part of the BRICS intergovernmental organization founded NDB in 2015, becoming its equal owners with identical shares. Since then, the structure of owners has expanded due to minority shares of the new shareholder countries. If geopolitical uncertainty does not become a serious constraining factor, then the growth of the number of shareholders will continue and become regular, negotiations with potential shareholders are underway. Positive expectations are reinforced by the fact that a new shareholder country has joined and the process for another country to join the ranks of participants is almost complete. It is noteworthy that the original five founders intend to retain their controlling stakes.

NDB's core activities are 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.

ACRA expects that the Bank, while still a young organization, is likely to return to relatively notable annual portfolio growth in the next 12–18 months. In general, forecasting is complicated by uncertainty surrounding investors' sentiment toward the Bank, as one of the member states is experiencing geopolitical pressure. In ACRA's opinion, the situation is partly mitigated by signs of growing attention paid by the BRICS countries to the importance of further strengthening intercountry cooperation. The Agency believes that NDB could be one of the platforms for the implementation of these goals, thereby increasing its value for the founding countries.

As of mid-2023, approximately 25–30% of the Bank's loan portfolio was in China and India each, around 23% in South Africa, around 12% in Russia, and approximately 10% in Brazil. Amid the current sanctions and unpredictable changes to the external environment, Russian exposures may remain a source of additional impairment reserves. Due to this, NDB continues to adhere

to its decision to temporarily stop participating in new projects related to the Russian Federation.

KEY ASSESSMENT FACTORS

Strong business profile assessment. 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 efficiency 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, with the chairmanship function transitioning from one country to another. ACRA notes the lack of veto power by shareholders.

Starting from the second half of this year, the Bank is targeting a return to growth in its project portfolio after a pause over the past 18 months.

The strong capital position has been maintained, despite the Bank's historically neutral profitability in line with its mandate as a transnational development institution. The Agency's assessment continues to be determined by the high capital adequacy ratio (the ratio of paid-in capital to assets and contingent liabilities, excluding highly liquid short-term investments), which was 50% as of the middle of 2023. ACRA expects this indicator to remain above 30% over the next 12 to 18 months, despite expected growth in the portfolio by around 20% next year.

ACRA positively assesses the significant callable 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 start of 2023, NDB's subscribed capital stood at around USD 52.7 bln, of which only USD 10.5 bln was paid-in capital.

The Bank's financial result for H1 2023 was relatively high — approximately 5% return on average equity (versus an average of 0.5–1.5% in previous years). This level is supported by a stronger interest margin since last year on the back of higher rates in many economies around the world. Future profit dynamics will depend on the need to create additional impairment reserves for all exposures attributable to the Russian Federation, as well as on global monetary policy conditions.

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 Bank's portfolio as of mid-2023. It cannot be ruled out that pressure on the quality of assets may grow as loans mature and the growth of operations resumes, 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 the Bank to achieve higher diversity of operations.

As of mid-2023, ACRA highlighted the heightened 15% share of Stage 2 loans as per IFRS, which may remain a source of additional impairment reserves. Due to this, NDB continues to adhere to its decision to temporarily stop participating in new projects, which are exposed to similar risks.

The presence of high concentrations on the balance sheet continues to constrain the risk profile assessment — the 20 largest borrowers accounted for about 77% of the loan portfolio as of the middle of the year, while the 10 largest credit exposures (including treasury assets) accounted for about 149% of the Bank's paid-in capital 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 term of the loan portfolio, taking into account its

planned amortization schedule, is around 12,5 years). Risks continue to be mitigated by the large volume of sovereign governments' exposures or loans guaranteed by sovereigns (around 90% of issued loans and undrawn contingent liabilities) and NDB's privileged lender status, which is in line with the international practices of interaction with similar organizations. On the other hand, in the next several years, along with the implementation of strategic plans to expand the non-sovereign loan portfolio, the importance of a more cautious approach to managing credit risks will grow.

ACRA expects that, despite the Bank's plans to increase operations in local currencies in the next few years, the market risk exposure will remain low due to the management's intentions to maintain low values of open currency positions. This initiative, in the Agency's opinion, will contribute to greater operational flexibility of the Bank, reducing the dependence of business on potential unpredictable difficulties or restrictions associated with operations in dollars or euros.

NDB's funding and liquidity position is assessed as strong. Since 2021 equity has given way to debt securities in the Bank's resource base structure, though continues to be an important source of core business financing and contributes to the stability of operations. As of mid-2023, equity amounted to 42% of NDB's balance sheet, and in 2024 its share may decline to a still-high 30–40%.

The high share of equity in the resource base and conservative approach to managing the maturities of assets and liabilities made it easier for the Bank to get through the difficulties of placing new bond issues, which intensified in 2022 amid strengthening geopolitical tensions and are directly related to the ownership structure of NDB. Restrictions in the debt market are about the higher price of financing and greater control of investors over the distribution of attracted funds. Additional mitigating factors for the Bank include a stronger focus on Asian and Middle Eastern capital markets, as well as on organizing issuances among a closed group of investors. Another positive sign, in the Agency's opinion, is the resumption of issuance of dollar-denominated debt securities in April this year; issue arrangers were a number of banks from jurisdictions that are considered unfriendly to one of NDB's shareholder countries.

Liquid assets account for approximately 40% the Bank's balance sheet, with a substantial margin covering short-term liabilities. ACRA expects the Bank to maintain its comfortable liquidity metrics over the next 12–18 months, taking into account the stability of NDB's resource base.

The assessment of support from the shareholder countries is unchanged. ACRA assesses the degree of support from most of the key shareholder countries as medium as per the approaches reflected in the updated [Methodology for Assigning Credit Ratings under the International Scale to International Financial Institutions](#).

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 Scales](#).

KEY ASSUMPTIONS

- Continued importance to most shareholder countries;
- Maintaining robust credit underwriting standards and as a result, maintaining strong asset quality;
- Very high capitalization 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 importance to the key shareholder countries;
- Disagreements between the shareholder countries amid a tense geopolitical situation in the world;
- Substantial deterioration of capital adequacy;
- Substantial deterioration of funding and liquidity.

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](#). 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 Scales](#) 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 of New Development Bank 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 were, 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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