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Key rating assessment factors

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

The credit rating of [New Development Bank](#) (hereinafter, NDB, or the Bank) is primarily based on the Bank's very strong intrinsic financial strengths that stem from strong capital adequacy, an adequate risk profile, strong liquidity and funding, as well as its systemic importance to the shareholder founding members that enhances the quality of commitments.

With the BRICS countries (Brazil, Russia, India, China, and South Africa) as its equal shareholders and having recently celebrated its fifth anniversary, NDB is an International Financial Institution (IFI) with a mandate to finance infrastructure projects with a strong emphasis on sustainability as well as promote economic cooperation among the shareholder countries. Additional focus is placed on emerging markets and developing countries (EMDCs). As of July 2020, the founding members are the only shareholders with each owning a fifth of the Bank's paid-in capital. In the future, the Bank plans to extend its membership to both developing and industrialized countries, however the founding shareholders are to retain the majority collectively.

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 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 Bank has continued to expand both at its headquarters in Shanghai as well as via regional offices in the shareholder countries in 2020. The senior management of the Bank is on a rotational basis and in the second half of 2020, the presidency of the Bank transferred from India to Brazil. ACRA notes the lack of vetoing power by shareholders.

NDB's capital adequacy is strong. As of end-June 2020, NDB's subscribed capital stood at USD 50 bln, of which USD 10 bln was paid-in capital. In comparison, the total assets of the Bank stood at USD 15.1 bln with tier 1 capital at 127.4% as of the same period. The Bank is expected to utilize a substantial portion of this capital to finance key infrastructure projects within the jurisdictions of the shareholder countries and throughout other developing countries.

ACRA assesses NDB's risk profile as adequate. The Bank's risk governance and management systems are in line with best practices of leading financial institutions. This includes dedicated committees for credit and non-credit risk assessment, thorough know your client (KYC), anti-money laundering (AML), and anti-terrorism funding (ATF) control practices. The Bank continuously reviews its risk management structure and upgrades it by adding new internal regulations phase by phase.

As of end-June 2020, China was the largest recipient of credits at USD 5.6 bln, followed by India at USD 1.8 bln, Russia at USD 1.1 bln, Brazil at USD 0.5 bln and South Africa having received a bit less than USD 0.5 bln.

During 2020, a year which could be defined by the COVID-19 global pandemic, the Bank was swift in starting to raise funds in the member states' and international markets and disbursing credits to member states (the first COVID-19 assistance loan was provided to

China in March 2020) for pandemic-relief purposes to the tune of around USD 4 bln (as of September 2020). This factor, along with further enlarged placements with major financial institutions, resulted in very high concentration on the top ten counterparties driving the adequate risk profile assessment in spite of solid creditworthiness of counterparties and sovereign guarantees.

NDB's investment portfolio still consists mostly of time deposits placed with investment-grade financial institutions. However, ACRA expects that as the Bank builds its track record and investments in different jurisdictions grow, the structure of the investment portfolio will change significantly.

As of end-September 2020, the Bank did not have any impaired assets. However, ACRA believes that the quality of the Bank's loan book will be tested as it continues to expand its operations, including in emerging market countries where credit risk is higher than in BRICS countries. On the other hand, expansion into new markets will help NDB to achieve higher diversity in the portfolio, mitigating the current concentration levels. The Bank sets aside reserves for eventual credit deterioration based on its expected credit loss assessment practice.

NDB's liquidity and funding position is strong. Capital is still the main source of funding due to the recent launch of the Bank's operations. Currently, the majority of NDB's funding is in USD as the Bank's capital was provided in that currency. In order to finance projects within the shareholder countries, the Bank aims to raise funds in local markets and in local currencies and to further diversify its funding sources in terms of currencies and tenor across markets.

The Bank has registered substantial debt programs in different markets and currencies, including RMB 10 bln in China, ZAR 10 bln in South Africa, RUB 100 bln in Russia, USD 50 bln EMTN (Euro Medium-term Note), as well as USD 8 bln ECP (Eurocommercial Paper), as of end-June 2020.

The Bank has made use of some of its programs during 2020, including a placement of a USD 1.5 bln COVID response bond in international markets in June 2020, as well as an RMB 5 bln (USD 700 mln) Coronavirus Combating Bond in April 2020, an RMB 2 bln (USD 300 mln) bond in July 2020 and a USD 2 bln bond in September 2020.

ACRA assesses support from shareholder countries as moderately high. This assessment is supported by two elements: ACRA's view that the importance of NDB operations for shareholder countries is at the highest possible level and the adequate average creditworthiness assessment of shareholder countries.

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 some usage for credit disbursement;
- Continued refinement of governance and risk management policies.

Potential outlook or rating change factors

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

under the international scale**A positive rating action may be prompted by:**

- Rating upgrade not possible as the current rating is the highest possible on ACRA's international rating scale.

A negative rating action may be prompted by:

- Substantial deterioration in the creditworthiness of shareholder countries resulting in a weaker credit profile for NDB;
- Decrease in systemic importance for key shareholder countries;
- Substantial deterioration in capital adequacy;
- Substantial deterioration in liquidity and funding;
- Continued persistence of concentration of assets.

Potential outlook or rating change factors under the national scale for the Russian Federation

The **Stable outlook** assumes that the rating will most 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

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 credit rating outlooks for New Development Bank are expected to be revised within 182 days following the publication date of this press release as per the [Calendar of planned sovereign credit rating revisions and publications](#).

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

No material discrepancies between the provided information and the data officially disclosed by New Development Bank in its financial statements have been discovered.

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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