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Key rating assessment factors

ACRA assigns A- to International Bank of Economic Co-operation, outlook Stable, under the international scale and AAA(RU), outlook Stable, under the national scale for the Russian Federation

The credit rating assigned to [International Bank of Economic Co-operation](#) (hereinafter, IBEC, or the Bank) is driven by its strong intrinsic strengths that stem from strong capital adequacy, a satisfactory risk profile, adequate liquidity and funding, and a shareholder and structure support score of A-.

Headquartered in Moscow, IBEC is an International Financial Institution (IFI)/supranational development bank founded in 1963 with a mandate to facilitate international trade, economic development, and collaboration among its member states and the rest of the world. As of year-end 2019, the member states of IBEC were the Russian Federation (51.6%), the Czech Republic (13.3%), Republic of Poland (12%), Republic of Bulgaria (7.6%), Romania (7.1%), the Slovak Republic (6.7%), Mongolia (1.3%), and the Socialist Republic of Vietnam (0.4%).

Historically, the Bank has taken part in key multilateral initiatives aimed at fulfilling its mandate including the implementation of a collective currency and payment platform among the member states, then known as COMECON/CEMA (Council for Mutual Economic Assistance), which included its current and former member states – GDR (East Germany, now defunct), Hungary, and Cuba.

After several years of reduced activities following the dissolution of the Soviet Union in the early 1990's, the member states of the Bank reaffirmed their commitment and decided to reform and relaunch the Bank in 2018, reinforcing its original mandate.

The Bank's management quality, strategy, and operational transparency is adequate. A key aspect of the Bank's relaunch in 2018 was the introduction of an experienced international management team and general HR overhaul aimed at attracting top talent to the Bank. At its relaunch, IBEC made significant changes to its governance framework and personnel, which introduced new key mechanisms such as a transition from a country quota-based employment system to international competition as well as a set of other management policies.

IBEC's capital adequacy position is strong. IBEC's paid-in capital stood at EUR 200 mln of as of end-year 2019 while authorized capital stood at EUR 400 mln. However, the Bank has yet to implement a callable capital mechanism. By Basel terms, the Tier-1 capital ratio stood at 50.4% as of the same period. Return on Equity stood at 1.7% at end-year 2019, as calculated by ACRA.

ACRA assesses IBEC's asset risk profile as satisfactory. IBEC's total assets grew by more than a third to EUR 651 mln at year-end 2019 from EUR 404 mln at year-end 2018, which is mainly driven by an increase in securities and loan portfolios. The credit portfolio amounted to around 43% of total assets as of end-year 2019, with two-thirds being loans to customers and 79% of it being either collateralized with real estate, equipment, machinery and financial assets, or secured by corporate and state guarantees. The Bank has been increasing its focus on trade financing activity, which grew to EUR 77 mln at year-end 2019 (more than double compared to the same period a year ago). The Bank has no impaired assets, which reflects the fact that at its relaunch in 2018, then outstanding non-performing assets of EUR 39 mln were fully written off. However, some portion of the Bank's current outstanding credit is exposed to assets with low creditworthiness assessments. The Bank continues to build its portfolios and implement robust industry standard risk management measures focused on ensuring the stable availability of the liquidity and material buffer, maintaining strict underwriting criteria for credit, and diligent treasury operations.

IBEC's liquidity and funding position is adequate. IBEC's liabilities are moderately diversified in terms of funding sources (the Herfindahl-Hirschman Diversity score by type stands at 32%). IBEC has aggregate long-term borrowings, which stood at EUR 112 mln (17% of total funding including capital). IBEC's Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratio (LCR) stood at 124% and 139% respectively at end-year 2019. IBEC issued its first placement in the Russian market in 2019 for a volume of RUB 7 bln (around EUR 100 mln at the time of placement) with a tenure of ten years.

ACRA assesses support from the member states at A-. This assessment is supported by two elements: ACRA's view that the importance of IBEC's operations for the shareholder countries is considered as generally high, and the adequate average creditworthiness assessment of the shareholder countries.

IBEC'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 member state creditworthiness, as well as IBEC's systemic importance to the member states;
- Maintaining the current strategy and business model within the 12 to 18-month horizon;
- Maintaining the capital adequacy ratio well above 25%;
- Continued refinement of governance and risk management policies.

Potential outlook or rating change factors under the international scale

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

A positive rating action may be prompted by:

- Significant increase in the creditworthiness assessment of key member states while maintaining systemic importance for said member states;
- Increase in paid-in capital levels;
- Notable and sustained improvement in asset risk profile.

A negative rating action may be prompted by:

- Decrease in the creditworthiness assessment of key member states;
- Decrease in systemic importance for key member states;
- Deterioration in capital adequacy and risk profile assessments;
- Deterioration in liquidity and funding position.

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:

- Decrease in IBEC's credit rating under the international scale.

Rating components under the international scale

SCA: a-

Adjustments: none.

Regulatory disclosure

The credit rating was assigned to International Bank of Economic Co-operation under the international scale based on the [Methodology for Assigning Credit Ratings on the](#)

[International Scale to International Financial Institutions and Other Supranational Development Institutions](#). The credit rating was assigned to International Bank of Economic Co-operation 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](#).

Credit ratings under the international scale and the national scale for the Russian Federation have been assigned to International Bank of Economic Co-operation for the first time. The credit ratings and credit rating outlooks for International Bank of Economic Co-operation 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 are based on the data provided by International Bank of Economic Co-operation, information from publicly available sources, and ACRA's own databases. The rating analysis was conducted using IFRS reporting of International Bank of Economic Co-operation. The credit ratings are solicited, and International Bank of Economic Co-operation participated in their assignment.

No material discrepancies between the provided information and the data officially disclosed by International Bank of Economic Co-operation in its financial statements have been discovered.

ACRA provided no additional services to International Bank of Economic Co-operation. No conflicts of interest were discovered in the course of the credit rating assignment.

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