

ACRA AFFIRMS A TO INTERNATIONAL INVESTMENT BANK, OUTLOOK STABLE, UNDER THE INTERNATIONAL SCALE, AAA(RU), OUTLOOK STABLE, UNDER THE NATIONAL SCALE FOR THE RUSSIAN FEDERATION, AND AFFIRMS AAA(RU) TO BOND ISSUES

BATCHULUUN LKHAGVAA

Director, Financial Institutions Ratings Group

+7 (495) 139-0480, ext. 135

batchuluun.lkhagvaa@acra-ratings.ru

MIKHAIL NIKOLAEV

Director, Sovereign Ratings and
Macroeconomic Analysis Group

+7 (495) 139-0302, ext. 179

mikhail.nikolaev@acra-ratings.ru

The credit rating of International Investment Bank (hereinafter, IIB, or the Bank) is driven by the Bank's Standalone Credit Assessment (SCA), which stems from strong capital adequacy, adequate risk profile, adequate liquidity and funding, as well as moderately strong support levels from its shareholders.

Headquartered in Budapest (moved from Moscow in H2 2019), IIB is an International Financial Institution (IFI)/supranational development bank with a mandate to support small and medium size enterprises (SMEs), infrastructure and socio-economically valuable projects among its member states and beyond, reinforcing cooperation. The member states of IIB as of August 2021 are the Russian Federation (44.9%), Hungary (17.2%), the Republic of Bulgaria (11.1%), the Czech Republic (9.8%), Romania (6.9%), the Slovak Republic (6.4%), the Republic of Cuba (1.9%), the Socialist Republic of Vietnam (1.0%), and Mongolia (0.9%). Originally founded in 1970, IIB entered a dormant period following the fall of the Soviet Union in the early 1990's until its successful relaunch in 2012 that oversaw a revamped and modern take on the overall business, experienced professional management team, ever-raising standards of governance and operations, and robust risk management policies.

KEY ASSESSMENT FACTORS

Management quality, strategy and operational transparency are adequate. A key aspect of the relaunch of IIB in 2012 was the introduction of an experienced international management team. The new team has ensured a material improvement in all aspects of the business over the years. In 2018, IIB made significant changes to its shareholder agreement which introduced new key mechanisms such as the transition from a two-tier to a three-tier governance system (Board of Governors, Board of Directors and management board), implementation of a "pro-rata" voting system (number of votes proportionate to the size of its share in the Bank's paid-in capital) together with a double majority rule (for the protection of minority shareholders).

IIB's capital adequacy position is strong. In December 2018, IIB's Board of Governors approved its EUR 200 mln paid-in capital increase plan for the four-year period until the end of 2022, as well as approving the authorized capital at EUR 2 bln. In addition, the capital increase from Czech Republic in 2018 (EUR 7 mln) resulted in shareholders from the EU controlling more than 50%

of the paid-in capital. More shareholders from the EU have increased their shares since then — as of August 2021, Shareholders from the EU cumulatively held 51.4%; the Bank's 2020–2022 Capitalization Program envisages EU countries cumulatively maintaining a majority with around 52% of control by 2022. As of end-June 2021, the Bank's paid-in capital stood at EUR 381 mln and by Basel terms, the Tier 1 capital ratio stood at 31.7%. Return on Equity stood at 1.6% at end-June 2021.

ACRA assesses IIB's asset and risk management system as adequate. IIB's credit portfolio amounted to around 64% of the total assets as of end-June 2021 and 51% of the outstanding loans are either collateralized with real estate, equipment, machinery and financial assets, or secured by corporate and state guarantees. Past due assets over 90 days accounted for 2.4% of the loan portfolio and 10% of these are covered by provision reserves, as well as full a sovereign guarantee. IIB's investment security portfolio stood at around 17% of the total balance sheet and mostly consists of high investment grade corporate debt securities and green bonds outside the shareholder countries, which is in line with IIB's increasing emphasis on sustainability considerations. The Bank has robust risk management mechanisms in place, including FX risk measures (total open currency position not to exceed 15% of equity, for single currency exposure not to exceed 10% of equity). Derivatives use is allowed only for the purposes of mitigating FX and interest rate risks, in addition to the fact that IIB has full access to its member states' capital markets for raising funding in the desired currency, which results in an effective FX risk management.

IIB's liquidity and funding position is adequate. IIB is characterized by its ample liquidity position as it maintains a substantial share of highly liquid assets on its balance sheet. As of end-June 2021, IIB's liabilities are moderately diversified in terms of funding sources (Herfindahl-Hirschman Diversity score by type at 45%). IIB had aggregate long-term borrowings, which stood at just over EUR 1 bln. The Bank frequently issues debt in the currency of its member states on the appropriate markets. As of end-June 2021, RUB placements had the highest portion in outstanding issuance at 35% of the total outstanding debt mainly as a result of multiple placements during the COVID-19 period in the Russian market, followed by RON and HUF at 32% and 21%, respectively. The Bank also had placements in EUR and CZK, which stood at 10% and 3% of the total debt issued, respectively. IIB's Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratio (LCR) stood at 122% and 1153%, respectively, in the same period.

ACRA assesses support from shareholder countries as moderately strong. This assessment is supported by two elements: ACRA's view that the importance of IIB's operations for shareholder countries is high and the moderately strong creditworthiness assessment of shareholder countries on an aggregate basis. However, the level of support from shareholder countries does not limit the SCA of the Bank, which drives the final rating.

IIB'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 under ACRA's International Scale to Credit Ratings Assigned under ACRA's National Scale for the Russian Federation](#).

KEY ASSUMPTIONS

- Maintaining member-state creditworthiness, as well as IIB's systemic importance to 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:

- Substantial improvement in the credit portfolio;
- Increase in paid-in capital levels.

A negative rating action may be prompted by:

- Deterioration in capital adequacy;
- Increase in impaired assets;
- 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 IIB's credit rating under the international scale.

RATING COMPONENTS

SCA: **a**.

Adjustments: **none**.

ISSUE RATINGS

International Investment Bank exchange-traded bond, Series 001P-02 (RU000A101LM4), maturity date: April 23, 2025, issue volume: RUB 7 bln — AAA(RU).

International Investment Bank exchange-traded bond, Series 001P-03 (RU000A101LN2), maturity date: April 23, 2025, issue volume: RUB 5 bln — AAA(RU).

International Investment Bank exchange-traded bond, Series 001P-04 (RU000A101MZ4), maturity date: May 16, 2023, issue volume: RUB 7 bln — AAA(RU).

International Investment Bank exchange-traded bond, Series 001P-05 (RU000A1023H7), maturity date: March 10, 2023, issue volume: RUB 7 bln — AAA(RU).

Rationale. In ACRA's opinion, the credit ratings of the bonds listed above correspond to the credit rating of [International Investment Bank](#), i.e., AAA(RU).

REGULATORY DISCLOSURE

The credit ratings have been assigned to International Investment Bank 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 ratings were assigned to International Investment Bank and the bonds issued by

International Investment Bank (RU000A101LM4, RU000A101LN2, RU000A101MZ4, RU000A1023H7) under the national scale for the Russian Federation based on the [Methodology for Mapping Credit Ratings Assigned under ACRA's International Scale to Credit Ratings Assigned under 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 [Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments on the National Scale for the Russian Federation](#) was also applied to assign credit ratings to the above issues.

The credit ratings under the international scale and the national scale for the Russian Federation for International Investment Bank were published by ACRA for the first time on November 18, 2019. The credit ratings assigned under the national scale for the Russian Federation to the bonds issued by International Investment Bank (RU000A101LM4, RU000A101LN2, RU000A101MZ4, RU000A1023H7) were published by ACRA for the first time on April 28, 2020, April 28, 2020, May 18, 2020, and September 10, 2020, respectively. The credit ratings and credit rating outlooks for International Investment Bank is 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 International Investment Bank, information from publicly available sources, and ACRA's own databases. The rating analysis was conducted using the IFRS reporting of International Investment Bank. The credit ratings are solicited, and International Investment 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.

Disclosure of deviations from the approved methodologies. A positive correction was applied for non-performing loans that were not 100% covered, which is a deviation from the [Methodology for Assigning Credit Ratings under the International Scale to International Financial Institutions and Other Supranational Development Institutions](#) and reflects ACRA's expectations of a full recovery of these debts because they are covered by a sovereign guarantee. In ACRA's opinion, accumulated reserves fully reflect the risk that the Bank could face in case of a potential default.

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

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Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)
75, Sadovnicheskaya embankment, Moscow, Russia
www.acra-ratings.com

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