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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

The credit rating of International Investment Bank (hereinafter, IIB, or the Bank) is primarily based on strong intrinsic financial strengths that stem from adequate capital adequacy, adequate risk profile, and adequate liquidity and funding as well as shareholder and structure support score of A-.

Headquartered in Budapest (moved from Moscow in 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 are the Russian Federation (42.9%), the Republic of Bulgaria (12.1%), Hungary (17.2%), the Czech Republic (10.7%), Romania (7.5%), the Slovak Republic (6.1%), the Republic of Cuba (1.5%), the Socialist Republic of Vietnam (1.1%) and Mongolia (1.0%). 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 rating assessment factors

The management quality, strategy and operational transparency is 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 adequate. In December 2018, IIB's Board of Governors[1] 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. As of end-December 2019, the Bank's paid-in capital stood at EUR 339 mln and by Basel terms, Tier-1 capital ratio stood at 34.59%. Out of the nine shareholder countries, the six investment grade sovereigns hold over 96.5% of the paid in capital. Return on Equity stood at 1.45% at end-December 2019.

ACRA assesses IIB's Asset and risk management system as adequate. IIB's corporate credit portfolio amounted to around 54% and loans to banks stood at around 13% of the total assets as of the end of 2019. Fifty four percent 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 1.6% of the loan portfolio and they are fully covered by provision reserves. IIB's investment security portfolio stood at 23% of the total balance sheet and it 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

[1] Collective governing body of IIB, consists of government officials of the member states (ministers of finance, heads of central banks, etc.).

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 strong liquidity position as it maintains a substantial share of highly liquid assets on its balance sheet. IIB's liabilities are moderately diversified in terms of funding sources (Herfindahl-Hirschman Diversity score by type at 44%). IIB had aggregate long-term borrowings, which stood at EUR 793.5 mln (58% of total funding including capital). The Bank frequently issues debt in the currency of its member states on the appropriate markets. As of year end of 2019, RON placements had the highest portion in the outstanding issuance at 29% of the total outstanding debt, closely followed by RUB and EUR at 27% and 18%, respectively. The Bank also had placements in HGF and CZK, which stood at 18% and 8% of the total debt issued, respectively. IIB's Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratio (LCR) stood at 122% and 188%, respectively, at the end of 2019.

ACRA assesses support from member-states at A-. This assessment is based on the highest achievable level of support from key member states. IIB has nine shareholders, however six major investment-grade rated shareholders, the Russian Federation (A-), Hungary (BBB), the Republic of Bulgaria (A-), the Czech Republic (AA), Romania (BBB-), and the Slovak Republic (A+) cumulatively own over 96% of the paid-in capital. The remainder of the share belongs to the Republic of Cuba (Unrated), Vietnam (Unrated) and Mongolia (Unrated). The score for assessment of support from member-states does not cap the Standalone Credit Assessment score.

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 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 IIB systemic importance to member states;
- Maintaining the current strategy and business model within the 12 to 18-month horizon;
- Maintaining 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:

- Increase in the creditworthiness of key member states while maintaining systemic importance for said member states;
- Increase in paid-in capital levels.

A negative rating action may be prompted by:

- Decrease in the creditworthiness of key member states;
- Decrease in systemic importance for key member states;
- Deterioration in capital adequacy;
- Deterioration in liquidity and funding position;
- Decrease of funding structure diversity.

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 under the international scale

SCA Category: a.

SCA: a.

Adjustments: none.

Issue ratings

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

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

Rationale. The credit ratings of bond issues series 001P-02 (RU000A101LM4) and 001P-03 (RU000A101LN2) are in line with the credit rating of the Issuer.

Regulatory disclosure

The credit ratings were 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 bonds issued by International Investment Bank (RU000A101LM4, RU000A101LN2) 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. In the course of assigning credit ratings to the bond issues above, the Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation was also used.

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 bonds issued by International Investment Bank (RU000A101LM4, RU000A101LN2) were published by ACRA for the first time on April 28, 2020. The credit rating and credit rating outlook 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 planned sovereign credit rating revisions and publications.

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

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

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

The Analytical Credit Rating Agency (ACRA) was founded in 2015, with its 27 shareholders representing major Russian corporate and financial institutions and its authorized capital exceeding RUB 3 bln. ACRA's main objective is to provide the Russian financial market with high-quality rating products. Methodologies and internal documents of ACRA are developed in compliance with Russian legislation and with regard to global rating industry best practices.

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