MOODY'S INVESTORS SERVICE

ISSUER IN-DEPTH
23 May 2019

Rate this Research

RATINGS

International Investment Bank

	Rating	Outlook
Long-term Issuer	A3	STA
Short-term Issuer	--	--

TABLE OF CONTENTS

Contacts

Kristin Lindow +1.212.553.3896
Senior Vice President
kristin.lindow@moodys.com

Ellen Kockum +49.69.70730.922
Associate Analyst
ellen.kockum@moodys.com

Steffen Dyck +49.69.70730.942
VP-Sr Credit Officer
steffen.dyck@moodys.com

Dietmar Hornung +49.69.70730.790
Associate Managing Director
dietmar.hornung@moodys.com

Yves Lemay +44.20.7772.5512
MD-Sovereign Risk
yves.lemay@moodys.com

International Investment Bank – A3 stable

Annual credit analysis

OVERVIEW AND OUTLOOK

The International Investment Bank (IIB, A3 stable) is a multilateral development bank that has a footprint in its nine shareholder countries: Bulgaria (Baa2 stable), Cuba (Caa2 stable), Czech Republic (A1 positive), Hungary (Baa3 stable), Mongolia (B3 stable), Russia (Baa3 stable), Romania (Baa3 stable), Slovakia (A2 positive) and Vietnam (Ba3 positive). Most of these members are registering relatively strong and healthy growth. Originally focused on Comecon countries, IIB was relaunched in 2012 with new management and a fresh strategy geared towards market-oriented project development. The strategy was refined further in 2018 along with a new corporate structure meant to enhance the involvement of members and a plan to nearly double its authorized capital.

The credit strengths of IIB include its strong capital adequacy, with more paid-in and authorized capital forthcoming, improved liquidity and quality of treasury assets and ample callable capital from mainly investment-grade-rated shareholders. Significant gains in the diversity of both its loan and funding portfolios are anticipated with IIB's relocation of its headquarters to Budapest from Moscow. In this context, we expect a new focus on lending to projects in IIB's EU members as the bank's lower cost of funding will make it a more competitive lender.

However, IIB's credit profile is constrained by the bank's relatively short history following its 2012 relaunch, weak borrower quality, its small size and its rapid balance sheet expansion.

The rating would likely be upgraded if the bank's expansion were to be supported through additions to paid-in capital and continued progress in containing asset-quality pressures and diversifying and upgrading its loan portfolio. Also positive would be achieving its medium-term objective to further strengthen the quality of its treasury assets.

Conversely, IIB's rating would come under negative pressure if asset quality pressures were to rise materially and were expected to remain elevated, particularly if these adverse developments were to occur at a time of weakening capital buffers and a delay in anticipated payments of promised capital. Although not expected, a significant deterioration in the strength of member support would also lead us to consider a rating downgrade.

This credit analysis elaborates on IIB's credit profile in terms of capital adequacy, liquidity and strength of member support, which are the three main analytical factors in Moody's Supranational Rating Methodology.

Organizational structure and strategy

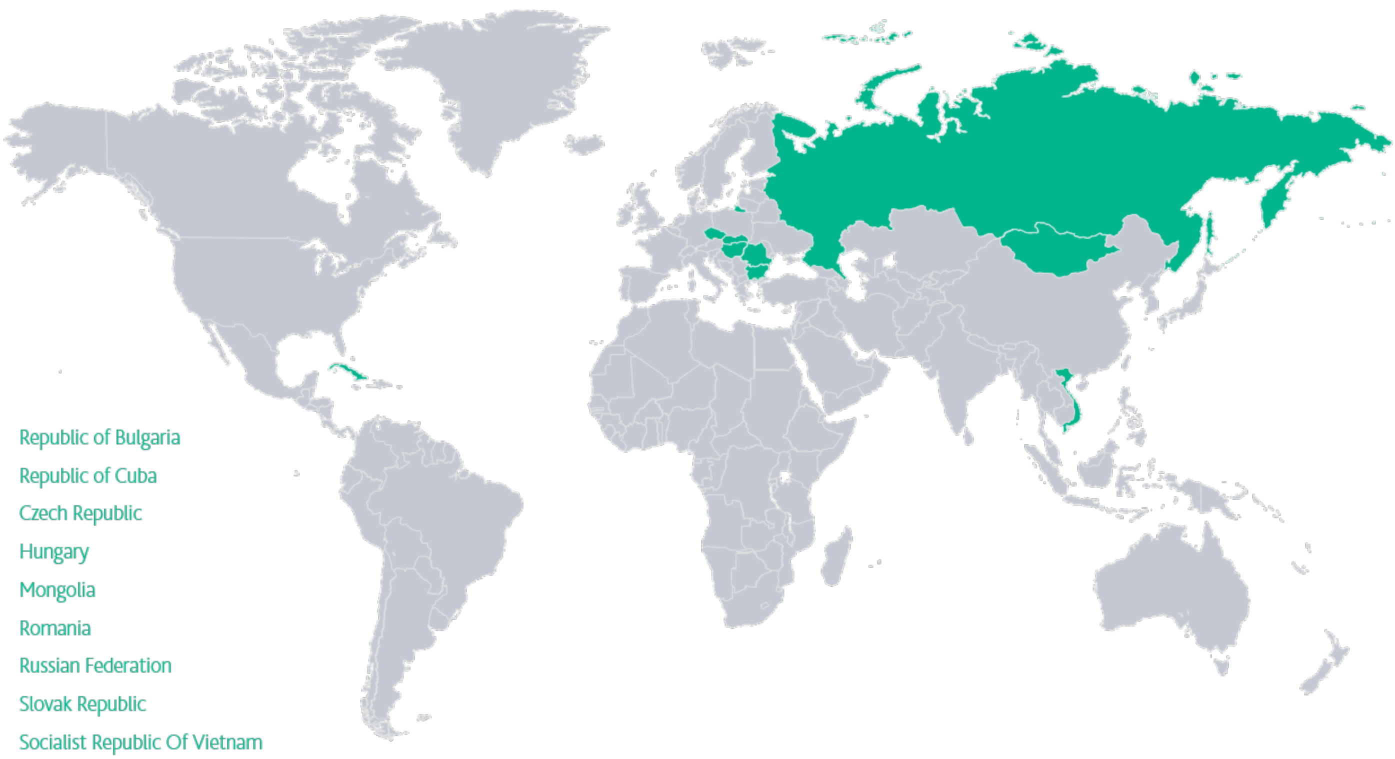
IIB was relaunched in 2012 and has quickly matured as an international financial institution

IIB was originally established as a multilateral development bank (MDB) in 1970 by the Soviet Union and other (at that time) socialist countries in the Soviet sphere of influence. While IIB survived the break-up of the Soviet Union, it entered a protracted period of stagnation, characterized by a lack of coherent loan and investment policies and inattentive management in the 20 years following 1991.

In 2012, IIB's eight shareholders decided to relaunch the bank, hiring new professional management and staff and developing a new strategy that has modernized the organization's operations. The bank now has nine members after Hungary rejoined the bank in 2015 (see Exhibit 1) and it moved its headquarters to Budapest from Moscow this year. The new location allows the bank to better support its focus on lending to projects in its European Union members Slovakia, Romania, the Czech Republic, Hungary and Bulgaria.

IIB's strategy after the relaunch emphasized the recruitment of skilled banking professionals at all levels of the institution to raise the standards of its operations. In particular, risk management policies were updated and are continually refined and a new set of governing statutes were approved at the end of 2018 that better aligns the bank's structure with global best practices.

Exhibit 1
International Investment Bank's diverse members



Sources: IIB, Moody's Investors Service

Russia's dominance in the bank had diminished even before the relocation

For a couple of years after the relaunch of the bank in 2012, Russia was still the dominant source of capital, funding and the main target for lending. After Hungary rejoined the bank and paid in its full capital commitment during 2016, Russia's share of paid-in capital declined to below 50% (see Exhibit 2). Furthermore, when an increase of paid-in capital was agreed by IIB's members in 2013, Russia's share of the increase was cut relative to the other members to further dilute its shareholding. Lending to Russia has also declined sharply: at present, loans to Russian entities are only 13% of the bank's portfolio.

Of the €176 million in new capital agreed in 2013, €76 million was taken from retained earnings (i.e., by reclassification) at the end of that year, whereas the remaining €100 million was expected to come from additional contributions from member states. Czech Republic and Romania (the former being IIB's highest-rated member) were slow in meeting their assigned shares of paid-in capital, in fact, Czech Republic has still not paid the last €5.6 million due. We view these delays as indicative of questionable commitment to the bank by those members at the time. We expect that the new structure of the bank and its move to Eastern Europe will likely increase the engagement of these and other members in the region with the bank.

Exhibit 2

EU members' share of paid-in capital rises to 51%, higher than Russia's 45.5%

	Rating/Outlook	Share in Paid-in Capital					
	Current	As of Mar 2019	As of end 2018	As of end 2017	As of end 2016	As of end 2015	As of end 2014
Russia	Baa3/STA	45.5	46.0	47.6	47.9	49.5	55.0
Bulgaria	Baa2/STA	12.8	12.9	13.4	13.5	13.9	15.5
Hungary*	Baa3/STA	12.1	12.3	12.7	12.8	9.9	--
Czech Republic	A1/POS	11.3	11.5	9.6	9.7	10.0	11.1
Vietnam	Baa3/STA	1.1	1.0	1.2	1.2	1.2	1.3
Mongolia	B3/STA	1.0	1.0	1.1	0.5	0.5	0.4
Romania	Baa3/STA	7.9	6.9	5.9	5.9	6.1	6.8
Slovakia	A2/POS	6.5	6.6	6.8	6.9	7.1	7.9
Cuba	Caa2/STA	1.6	1.6	1.7	1.7	1.8	2.0

*Hungary rejoined the bank in 2015

Source: IIB, Moody's Investors Service

IIB's governance structure was revised along with amendments to its statutes…

IIB's management structure was revamped in August 2018 after the ratification of the new statutes by all nine member states in June 2018. The changes are a part of the bank's objective to improve its effectiveness and to comply with international best practices and besides the important structural changes, the new statutes include revisions to the voting system and a near doubling of the bank's authorized capital to €2 billion.

Under the new organizational structure, the previous two-tier governance system has been replaced by a three-tier structure with a board of governors, a board of directors and a management board. The new structure aims to provide more transparency and clearer delegation of authority and is aimed at allowing the bank to more effectively divide the decision-making processes among its governing bodies.

The board of governors consists of member states' high-level officials such as ministers of finance and heads of central banks, rather than their appointees, which raises the level of familiarity and involvement of the members in the bank's operations. The governors will define the general direction of the bank's operations and development strategy. In addition, it will make the decisions about admission of new members as well as amendments to the statutory documents.

The board of directors reports to the board of governors and is responsible for the general management and oversight of the bank's operations such as lending operations. Lower level representatives of member states serve on the board of directors.

The management board reports to the board of directors and in a dotted line to the board of governors, who appoints its members. Its main role is to supervise the bank's operations in accordance with the statutory documents.

… including the voting system and an increased in paid-in and authorized capital

A pro-rata voting system has now been set up where each member state is allocated votes proportionate to its share in the bank's paid-in capital. This replaces the previous voting system where each member states had equal standing, regardless of size. Decisions are also now taken with a so-called "double majority" i.e. with a qualified majority of a minimum of three-quarters of all votes after having been backed by a simple majority of the member states' representatives that participated in the vote.

One of the most important changes that was introduced by the new statutory documents is the expansion of authorized capital, which is the sum of subscribed and unsubscribed capital. The authorized capital increased to €2 billion from €1.3 billion to allow and facilitate access of new member states to IIB – the bank hopes to attract 2-3 new members – and to increase the capital contribution of current member states. Now that the bank has rapidly expanded its lending portfolio, additional capital is required to stay within its leverage guidelines.

One aspect of IIB's financial controls that has not changed is the new constituent documents is that key financial ratios (for example with regard to financial leverage) are not enshrined in the constituent documents and can be changed by usual voting procedures by the board of directors. Such targets are instead set in the five-year strategy plans. While this flexibility has not been abused, and based on our observations and analysis is unlikely to be abused going forward, it does inject an element of uncertainty that is not common among peer IFIs.

IIB's mandate still focused on SME development but also on direct lending in collaboration with other IFIs instead of through intermediaries

The IIB's mandate has been to support small and medium-sized enterprises (SMEs) and socially important projects in member states, as well as trade between member states. Its development strategy for 2018-2022 highlights the bank's mission to facilitate connectivity and integration between members and to ensure sustainable and inclusive growth and competitiveness of their economies. IIB has also expanded its geographical footprint, such that it had loans outstanding in every one of its nine members in 2017 for the first time since its relaunch.

Like other MDBs that lend to the private sector, IIB's lending in the first few years after its relaunch has greatly depended on intermediary banks, but that is now changing to focus more on syndications, oftentimes in partnerships with other MDBs. IIB believes its credit risk skills and experience now allow it to participate in more direct lending without additional risks to asset quality. This change was already visible in 2017-18, when the share of loans to banks fell to an average of 26%, while the share to corporates increased to 71% from 54% in 2015.

In this context, IIB has extended its activity through cooperation with leading financial institutions in member countries, national organizations for development and other MDBs, such as the European Bank for Reconstruction and Development (EBRD, Aaa stable), the International Financial Corporation (IFC, Aaa stable) and the Dutch Development Finance Company.

IIB's trade finance business has expanded over the past two years. The bank says that demand for trade finance came from its members as they undertook relatively risky operations in very lowly rated countries. Trade finance was approved by the council in 2014 and has since then participated in 142 deals amounting to a total of €275 million. Examples include trade finance deals in the amount of €4.4 million to support Czech and Russian exports to Armenia (B1 positive). IIB is actively increasing its trade finance portfolio and expanding the number of counterparties in Europe, an example being a loan that facilitates the delivery of elevator equipment and automotive components to Russia from Belarus (B3 stable). IIB issued a short-term target loan of €30 million to the OJSC Development Bank of the Republic of Belarus, and it was one of the largest projects so far under the trade finance support program.

CREDIT PROFILE

Our determination of a supranational's rating is based on three rating factors: capital adequacy, liquidity and strength of member support. For multilateral development banks, the first two factors combine to form the assessment of intrinsic financial strength, which provides a preliminary rating range. The strength of member support can provide uplift to the preliminary rating range. For more information please see our Supranational Rating Methodology.

Capital adequacy: Medium

NPLs dropped to record low in 2018 amid continued rapid balance sheet expansion

Capital adequacy assesses the solvency of an institution. The capital adequacy assessment considers the availability of capital to cover assets in light of their inherent credit risks, the degree to which the institution is leveraged and the risk that these assets could result in capital losses.

Last year we raised IIB's capital adequacy score to “Medium” because of the strength of its capital and leverage ratios, together with its significant improvement in asset quality. The bank's scorecard-indicated outcome score for capital adequacy has moved to “High” now that the deduction from past very high levels of nonperforming loans (NPLs) has dropped out of the scorecard. Still, we have adjusted the final score down to the “Medium” assessment where we placed it last year pending the planned capital increase, given the steep decline in the usable equity ratio. In addition, the “Medium” score better reflects the bank's very small size relative to peers, which means that a single nonperforming loan can raise the NPL ratio significantly. That said, we acknowledge that the bank took a cautious approach in selecting loans and subsequent monitoring when it built up its balance sheet from initially low levels.

Usable equity falls slightly despite increased paid-in capital

IIB's usable capital amounted to €376 million at end-2018 (€395.7 million in 2017), which included paid-in capital of €326 million (€315 million in 2017), reserves of €44.4 million (€79.7 million in 2017) and profits of €5.6 million (€1 million in 2017). The capital cushion can be used to absorb losses on assets and to repay creditors before callable capital is considered (we discuss the option to call capital from shareholders in Factor 3 below).

Romania paid its full share of the 2013 capital increase in recent months, first by reallocating €4 million from its callable capital to its paid-in capital in August 2018 and later the remaining €3.6 million in March 2019 by the same procedure. Similarly, Czech Republic reallocated €7 million of its callable capital in December 2018 and plans to pay the remaining €5.6 million during the course of this year. As of March, therefore, the IIB's paid-in capital increased to €329.6 million. Apart from the pending paid-in capital increase, IIB's policy to allow members to allocate profits to reserves rather than paying dividends to its shareholders has added to the build-up of reserves over time.

IIB's development assets (mainly loans) have expanded significantly

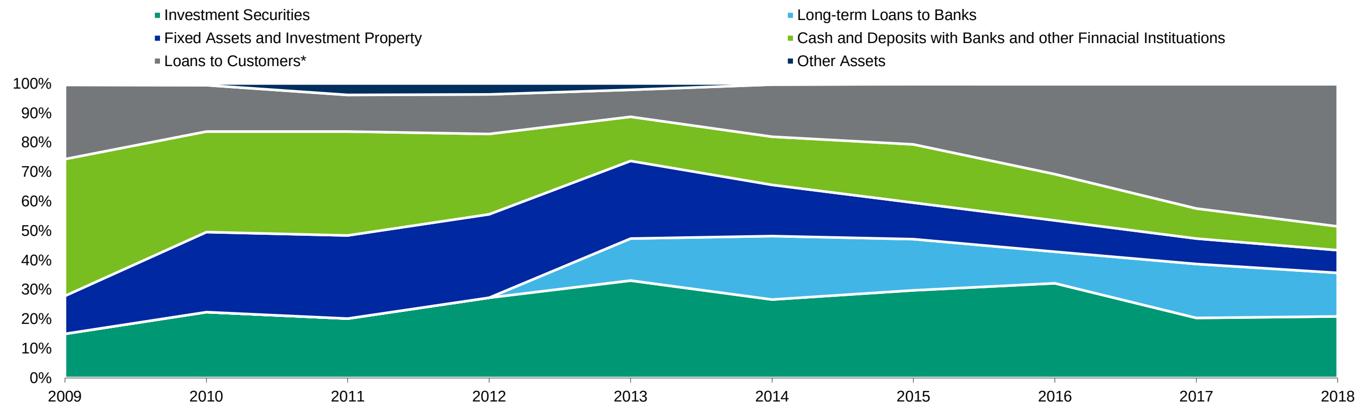
IIB's development assets mainly consist of loans, which increased by 14% in 2018 from 2017 to reach €771 million after a very large increase of 78% in 2017. As a result the share of loans in total assets rose to 65% in 2018 from 43% in 2016. The share of direct lending to corporates constituted a majority at 73% of loans whereas 23% was lent to banks as intermediaries at end-2018.

IIB is now on track to meet its targets for 2019 and 2020 in accordance with the 2018-2020 three-year business plan. According to this plan, the net loan portfolio will increase 14% in 2019 and 2020 respectively and reach €975 million in 2020. The longer five-year development strategy is targeting a loan portfolio of €1.2 billion by 2022 assuming the influx of new capital and an increased volume of funding.

The share of treasury assets remained roughly unchanged at just below 30% of total assets between 2017 and 2018, down from roughly 50% in 2015-16. Although the absolute value of treasury assets increased 5% to €342 million in 2018 from 2017, their value is 16% lower than in 2016. The reason is that IIB's 2018-22 strategy set out to increase the share of development assets relative to treasury assets in its total assets to 70%/30%, echoing the practices of other MDBs. IIB expects that the treasury portfolio will remain in the range of €300-€350 million over the 5-year strategy period.

IIB's investment property, own property and equipment amounted to 8% (€92 million) of total assets last year, while other physical assets accounted for around 0.3% (€3.3 million) (see Exhibit 3), compared to total assets of €1,194 million at the end of 2018.

Exhibit 3
Development assets now make up most IIB's balance sheet

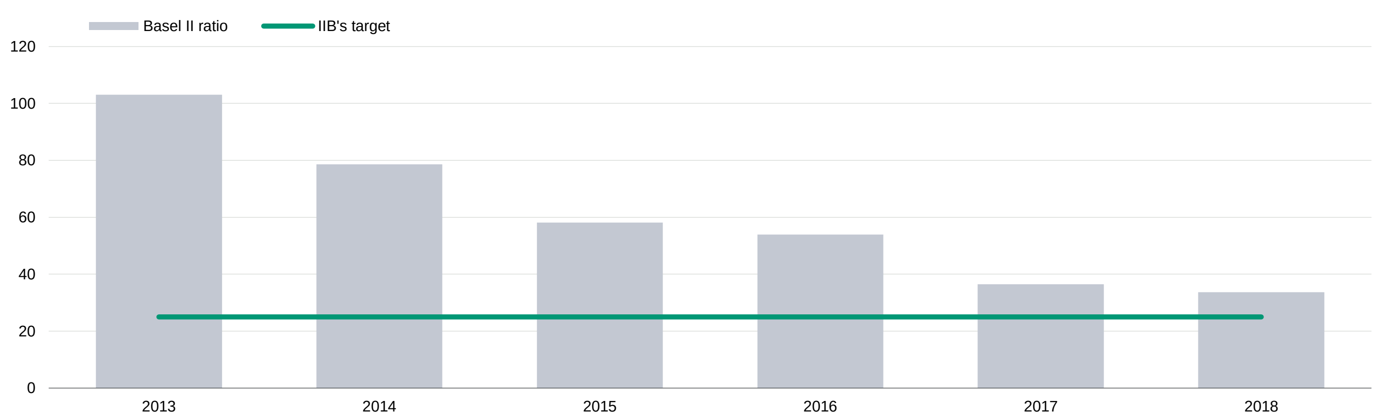


*refers to loans net of allowance for impairment
Source: IIB, Moody's Investors Service

Capital position shrinks relative to loan portfolio after rapid lending expansion...

For internal risk management purposes, the IIB uses the Basel II capital adequacy ratio (CAR) as a prudential ratio (risk-weighted assets in relation to regulatory capital). According to its risk management policy, this ratio should always remain above 25%. At the end of 2018, IIB's capital adequacy ratio dropped to 34.39% from 53.6% at end-2016 (see Exhibit 4). Further substantial growth in the loan portfolio would therefore be constrained pending receipt of the new capital commitments.

Exhibit 4
Capital adequacy ratio declined rapidly since 2013, but remains above the 25% lower limit
% risk-weighted assets to regulatory capital



Source: IIB, Moody's Investors Service

Our assessment of an MDB's capital adequacy combines our assessment of the asset coverage ratio (ACR) and the borrower quality approximated by the weighted average borrower rating (WABR), using a non-linear approach.

The ACR measures usable equity against total loans outstanding, equity investments and risk-weighted liquid assets. IIB's ACR amounted to around 49% at end-2018, down from 58% at end-2017 and a significant decline from the end-2013 value of 365% in line with the re-launch of the bank's operations that was happening at that time. These scores all place IIB's ACR in the "Very High" range. We expect that the ACR will continue to decline – albeit much more slowly – in 2019 and 2020, taking into account IIB's projections for loan expansion as well as equity. Without further capital replenishment, the ACR would likely drop to a "High" from a "Very High" score by 2021.

IIB's weighted average borrower rating (WABR) improved to Ba3 in 2018 from B1, which raised its score to "Medium" from "Low". At this level, borrower quality no longer weighs on the bank's capital position in our scorecard. IIB's borrower quality compares well to these higher-rated peers: GuarantCo (A1 stable) which has a WABR of B2; ITFC (A1 stable) and Black Sea Trade and Development Bank (A2 stable) which both have WABRs of B1, while CABEI (A1 positive) has the same WABR of Ba3. FONPLATA (A2 stable), on the other hand, has had consistently higher WABRs than IIB.

...while leverage remained at "High" in 2018

IIB's debt issuance has picked up swiftly in recent years, in keeping with the aggressive expansion of its lending portfolio. As a result, the bank's leverage ratio (gross debt relative to usable equity) rose to around 181% by the end of 2018, up from 169% a year earlier. Long-term borrowing was higher than expected while usable equity dropped, leaving the leverage score unchanged compared to 2017 at "High."

Relative to other MDBs, IIB's current leverage ratio is significantly lower than those of BOAD (Baa1 stable: 262%) and Eurofima (Aa2 stable: 952%) but somewhat higher than those of Eurasian Development Bank (EDB, Baa1 stable: 102%) and Black Sea Trade and Development Bank (BSTDB, A2 stable: 119%).

IIB reduced its nonperforming assets to a single loan in 2018

At €14.7 million, the IIB's nonperforming loans (NPL) ratio fell to 1.9% of total loans at end-2018 from 4.5% in 2017, supported by a reduction in NPLs to a single loan (from two at end-2017) and growth in the loan portfolio. No new NPLs have been reported in the first quarter of 2019.

The sole NPL outstanding at the end of 2018 is a loan facility to the Romanian company ROMCAB S.A. signed in 2015 with a three-year maturity. As the company is in insolvency proceedings, IIB established a loan loss provision in February 2017 and as of the end of June 2018, the loan was fully provisioned. IIB has started legal procedures against the guarantors of the loan.

The other NPL that was outstanding at the end of 2017 was a 5-year, €15 million loan extended in May 2014 to a Russian bank, "Spurt," in the Republic of Tatarstan (Ba1 stable). Spurt ran into liquidity problems and had to limit cash withdrawals in March 2017 when the Central Bank of Russia (CBR) revoked banking licenses of two other banks based in Tatarstan, triggering a run on deposits at Spurt. The CBR tried to stave off Spurt's failure but eventually that effort failed and the bank went into bankruptcy proceedings. IIB had fully provisioned the loan by the middle of 2018 and ultimately wrote the loan down in the second half of the year.

At the outset of these difficulties at Spurt, IIB's management became increasingly skeptical about the Russian banking sector generally. They took a decision to do away with the bank's entire exposure to the sector as quickly as possible, which brought the share of IIB's loan portfolio in Russia down to 13% at the end of 2018 from 27% at the end of 2017. The remainder of its loans to the sector were repaid in the first few months of 2018.

The other NPL from the post-re-launch loan book was a roughly €6 million loan to a Bulgarian company that was a significant exporter, and therefore important to the economy. IIB first attempted a restructuring of the loan and began making provisions upon realizing that the company was experiencing financial difficulties. Ultimately, the company still struggled to pay its debts and another of the company's creditors, a local bank, bought the loan from IIB.

The drop in Russian bank lending is consistent with IIB's cautious approach of freezing limits to countries at times of heightened uncertainty, whether for the economy as a whole or, as in this latest case, for certain sectors. For example, the IIB stopped funding in Mongolia over 2016-17 when the government was experiencing liquidity issues, but with a recovery in the Mongolian economy the IIB restarted building its loan pipeline.

High NPL ratios left over from previous iteration of bank now drops from scorecard

IIB's track record over the last six years shows its progress in maintaining strong asset quality, in part through tougher credit risk standards as well as the rapid expansion of its lending portfolio. Only three loans extended after 2012 became nonperforming, amounting to €36 million in total and representing 2.1% of €1.714 billion of loans and guarantees disbursed since then. This is proportionately better than BSTDB, which had 15 loans become nonperforming over a longer period of 16 years, amounting to €244 million in total NPLs, or 6.5% of cumulative loans signed.

We could see additional NPLs materialize as the loan book seasons, although we expect this to be mitigated by continued careful project selection and a less rapid pace of loan growth. For planning purposes, the IIB projects NPLs will remain consistently less than 5% of gross loans. In our view, the credit risk procedures implemented since IIB was re-launched in its current form suggest that this can be achieved. That said, given the still-small number of loans, just one or two loans turning nonperforming could lead to a sudden, relatively large jump in the NPL ratio, which explains why the overall capital adequacy score in the scorecard is adjusted down to “Medium” instead of “High,” as described below.

Few adjustments are made to IIB's capital adequacy

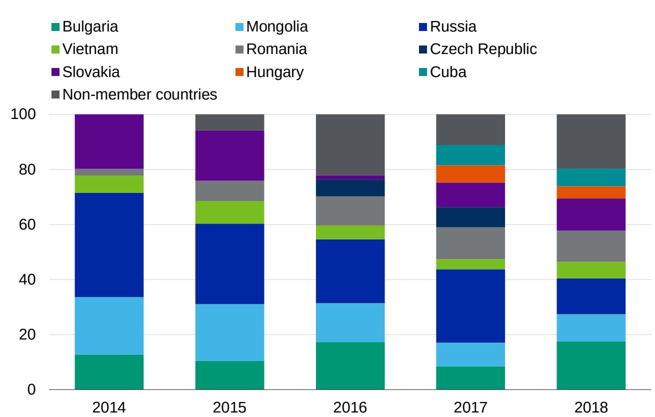
In our assessment of capital adequacy, we take into account an MDB’s portfolio concentration, operating environment, profitability, history of NPLs as well as any other characteristics relevant to assess capital adequacy that are not already captured by the subfactors.

(1) Reduced concentration risk is now marginally positive for capital adequacy

With regard to portfolio concentration, we analyze the share of the largest exposures in the lending portfolio and assess the concentration (Herfindahl-Hirschman Index, HHI) of IIB's loan portfolio with regard to the country, sector and regional level. IIB's portfolio is sufficiently diversified that we apply a 0.25 notch upward adjustment for this measure.

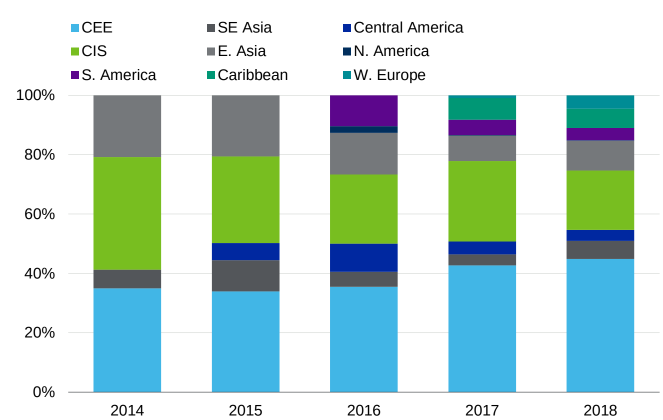
IIB’s top 10 loan exposures make up 56% of its loan portfolio and the concentration at the country level fell further to 10.4% in 2018. Both of these are significant improvements since the bank's re-launch. Concentration by sector also remained low level at 16% in 2018 whereas it was 27% at the regional level.

Exhibit 5
Increased diversification of IIB's loan portfolio across countries
% of total



Sources: IIB, Moody's Investors Service

Exhibit 6
IIB has integrated further into the CCE-region at the expense of regional diversification
% of total



Source: IIB, Moody's Investors Service

(2) Portfolio diversification and operating environment are neutral for capital adequacy

Unlike many other MDBs, IIB's operations are spread over different regions around the world, though central and eastern European countries are increasingly important, in line with IIB's strategy. By end-2018, 49% of the portfolio was lent to projects in EU members (up from 44% in 2017). Exposure to Russia has decreased significantly in comparison to 2014, reaching a historical low of 13% at end-2018 compared to 27% a year earlier.

The improvement in portfolio diversification supports our view that the economic and financial linkages among IIB's borrowers are "Low".

Our score for macroeconomic performance among member countries is "Medium," which is neutral for IIB's capital adequacy score. Positive rating actions have been more supportive, taking the average member rating up slightly: Russia's rating was raised by one important notch to investment grade; Vietnam was upgraded to Ba3 from B1 and the outlook on Mongolia's B3 rating was moved to stable from negative.

The economic situation has been improving in Russia over the last 2½ years as well, which is a positive change compared to the time of IIB's re-launch. We expect Russia to grow at around its potential growth rate of 1.5%-2% over 2019-22, while most other member countries and countries of operations are expected to have pretty healthy growth (see Exhibit below). The overall median average real GDP growth rate for the period 2018-21 is 3%, and the loan exposure weighted average growth rate is 3.2%. Our overall assessment of IIB's operating environment is therefore "Medium" and hence neutral for the capital adequacy score.

Exhibit 7

IIB's countries of operation have largely favorable growth prospects

Country	Rating/Outlook	Growth 2019-22	Share of loans end-2018
Russia	Baa3/STA	1.6	13.0
Romania	Baa3/STA	3.4	11.3
Slovakia	A2/POS	3.5	11.7
Mongolia	B3/STA	6.3	9.9
Bulgaria	Baa2/STA	3.2	17.5
Cuba	Caa2/STA	1.0	6.5
Hungary	Baa3/STA	3.0	4.5
Ecuador	B3/NEG	0.8	4.1
Panama	Baa1/STA	5.6	3.7
Vietnam	Ba3/STA	6.5	6.1
Netherlands	Aaa/STA	1.6	4.5
Belarus	B3/STA	1.9	7.1
United States of America	Aaa/STA	2.0	0.2

Source: IIB, Moody's Investors Service

(3) Profitability is volatile but has helped to build reserves

We note that IIB's profits are historically volatile, ranging from €60 million in 2009 (mainly driven by the treasury portfolio) to €1.7 million in 2011. Since the relaunch, profits have been less volatile but increased significantly in 2018 to €5.6 million, up from €1 million in 2017. This implies a return on average usable capital of 1.5% in 2018 and a return on average assets of 0.5%, up from 0.1% in 2017. Usable equity at end-2018 accounted for 31% (36% at end-2017) of total assets. Net interest income has been particularly volatile because of the large allowances for loan losses in some years.

Since IIB has not paid dividends since 1994, profits have helped to build up reserves of around €54 million (including the 2018 profit) at end-2018, a fall from €80 million at end-2017. Looking forward, we expect that IIB's profits will be relatively neutral for capital accumulation and similarly, for IIB's capital adequacy assessment.

(4) High legacy NPLs are no longer a drag on capital adequacy

IIB's NPLs were extremely large before the re-launch, and they were fully written-down or sold at the end of 2013 to allow the bank to start with a clean slate. Still, since our scorecard takes into account a 7-year average of an MDB's NPL ratio, the very high rates before the re-launch have only this year stopped being a drag on IIB's capital adequacy score.

(5) “Other” adjustments amount to -1.5 notch, related to IIB's small size

We deduct -1.5 notches to “other” factors that pose a risk to capital adequacy. The rationale for this deduction relates to the impact that even one or two payment delays or defaults could have on the bank's asset quality given the small number of loans outstanding. Relatedly, the rapid expansion of the loan book raises risks about the potential for suddenly worsening asset quality as the portfolio seasons.

Liquidity: Medium

Improving quality of treasury assets and more diversified funding support IIB's liquidity

Factor 2

Scale	Very High	High	Medium	Low	Very Low	
+			■			-

A financial institution's liquidity is important in determining its shock absorption capacity. We evaluate the extent to which liquid assets cover debt service requirements and the stability of the institution's access to funding.

We assess IIB's liquidity at "Medium" to reflect very high debt service coverage by liquid assets and the improving quality of treasury assets, although these remain low compared with peers. IIB's ability to raise stable financing has increased significantly over the last few years, especially with respect to the diversity of its investor base. We expect this trend to continue with the move of the headquarters from Moscow to Budapest.

IIB has expanded and diversified its long-term funding with the share of new funding coming from EU countries at 91% in 2018. Providing additional support to our assessment is a significantly lower cost of funding, which reached a record low in 2018, falling by 20 basis points in absolute terms from the previous year. The IIB has also established a track record of debt repayment since the relaunch, with a total of almost €800 million by the end of 2018.

IIB's liquidity position remains "Very High" although the debt service ratio is deteriorating as the loan portfolio expands

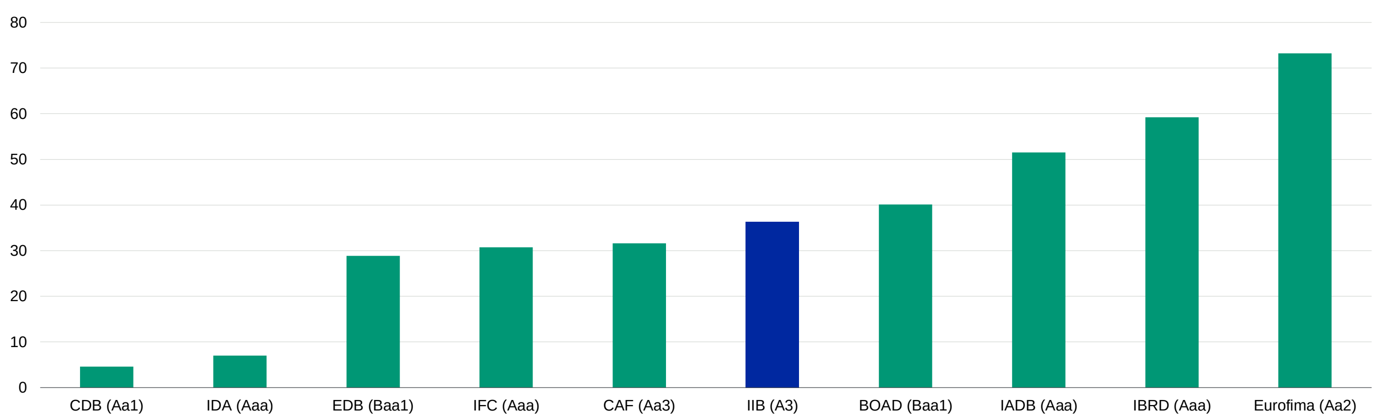
IIB has a "Very High" liquidity position when measured by its debt service coverage ratio. This ratio measures the three-year average of the stock of short-term and currently maturing long-term debt against the stock of liquid assets. Given that the bank only started borrowing in 2014, the liquidity ratio is currently very low, but is likely to increase given the continued expansion of the balance sheet over the next several years.

IIB's liquidity ratio has now returned 40.5%, roughly its level at the end of 2016, after dropping to 28% at the end of 2017 when short-term debt and currently maturing long-term debt fell to €90 million compared with €167 million at the end of 2016. The amount bounced back to reach €139 million at the end of 2018. That said, the debt service ratio, and with that the overall liquidity position, is comparable to that of more established MDBs rated in the A-range (see Exhibit 8).

Exhibit 8

IIB's liquidity position compares well with more established A-rated MDBs

Debt service coverage ratio (%): 3-year average ((Short-term + currently maturing long-term debt)/Discounted liquid assets)



Source: Moody's Investors Service

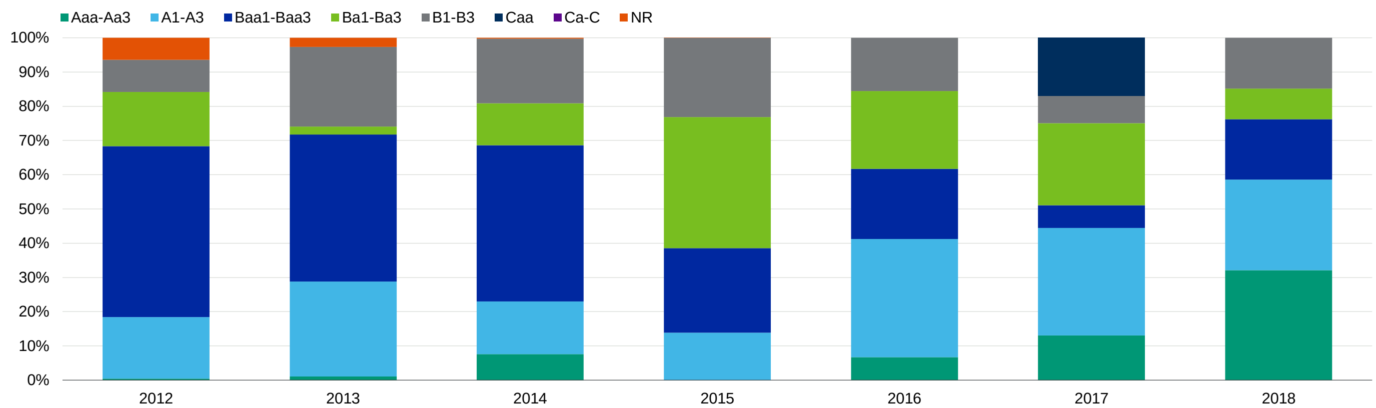
Treasury asset quality improved significantly in 2018

IIB continued to strengthen the credit quality of its treasury portfolio, which amounted to €341 million at the end of 2018. The share of Aaa-Aa-rated assets increased to 32% at the end of 2018 from just 13% in 2017 and 1% in 2015, while the A-rated assets amounted to 26% in 2018 compared with 14% in 2015. With 59% of its holdings rated A3 or higher at the end of 2018, IIB met its 2018 goal of >55% and is on track to meeting its goal in accordance with the three-year business plan of holding a minimum of 60% in 2019, 65% in 2020 and 75% in 2021. This could prove easier than expected for IIB as the cost of funding continues to fall.

Additionally, IIB increased its share of Baa-rated assets to 18% in 2018 from 7% in 2017 while Ba-rated assets fell to 9% in 2018 from 24% in 2017. IIB no longer has assets in the Caa-rated category, although it continues to hold assets of weaker quality with B ratings (15%) that are therefore less liquid (see Exhibit 9).

Exhibit 9

Treasury asset quality continues to improve

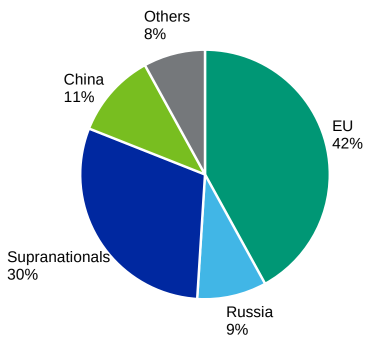


Sources: IIB, Moody's Investors Service

The expansion of the loan portfolio has allowed the bank to shift to holding higher-quality assets, since at the time of the relaunch, the treasury was significantly larger than the loan portfolio and therefore its main source of earnings. Although the quality of the securities portfolio remains lower than that of other MDBs, which mostly invest in highly (Aaa- or Aa-) rated and very liquid securities, the quality of the treasury portfolio improved significantly.

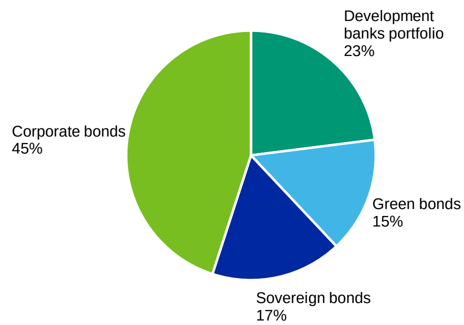
In addition to the improvements in ratings, the expansion of the loan portfolio has given IIB the opportunity to diversify its treasury assets in terms of country base and structure (see exhibit 10 and 11). The proportion of treasury assets stemming from supranational entities grew to 30% in 2018 from 15% in 2017. Green bonds increased as a share of securities to 15% in 2018 from 6% in 2017, while the share of sovereign bonds declined to 17% in 2018 from 21% in 2017.

Exhibit 10
IIB's treasury assets are diverse by country...
% share of total treasury assets in 2018



Sources: IIB, Moody's Investors Service

Exhibit 11
... and the structure of the securities
% share of total treasury assets in 2018



Sources: IIB, Moody's Investors Service

IIB exercises active internal liquidity management

IIB's internal liquidity risk management focuses on two prudential ratios embedded in the Basel III framework to safeguard adequate liquidity, namely the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR), adjusted to IIB's circumstances. The LCR covers a 30-day period and the NSFR a one-year period, and both ratios must remain at or above 100%.

IIB's LCR declined to 175.2% in 2018 from 381.5% 2017, and is well below the ratio of 825% at the end of 2013. The decrease since 2013 is mainly a consequence of IIB's increased lending activity, which has raised net cash outflows. At 116.7% and 112.7% at the end of 2018 and 2017, respectively, the NFSR was above the 100% minimum.

In 2017, IIB enhanced its liquidity risk management framework by extending the period for the "liquidity buffer" to 12 months from six months, with the latter being operational since 2015. The liquidity buffer, and the related controls of the size and composition of liquidity, are intended to enable the bank to withstand liquidity stress for up to 12 months without changing its business model. The liquidity buffer is never supposed to drop below a so-called "necessary liquidity buffer", which is calibrated to cover unforeseen outflows including demand and rollover deposits, partially long-term borrowings (put options) and loans to clients. The liquidity buffer contains highly liquid securities that can easily and quickly be converted into cash, repo or cash-buy operations. The tool follows the guidance set down by the Committee of European Banking Supervisors.

IIB's overall liquidity remains quite healthy, but gaps persist in certain maturity buckets

IIB also performs a liquidity gap analysis, which is published in its financial statements, grouping maturing assets and liabilities into six time periods (less than one month, one to three months, three months to one year, one to five years, over five years and without maturity stated).

In 2018, the IIB recorded a liquidity gap in the three months to one-year bucket in the amount of €65 million, compared with a net positive position in the same bucket the previous year of €57 million. The liquidity gap in the one to five-year maturity bucket was reduced to €174 million at the end of 2018, compared with €263 million at the end of 2017. That said, all other buckets recorded more assets than liabilities coming due and the overall liquidity position was positive at €288 million at the end of 2018, although lower than that at the end of 2017 with €304 million. The larger gap in the one to five-year bucket was mainly due to put options in IIB's bonds and could have been covered by selling part of its liquid assets if necessary.

While there is no policy or limit related to the liquidity gap analysis, the monthly report triggers appropriate management actions to address negative gaps in case of need, for example, by selling securities, engaging in repurchase operations or using open credit limits with the IIB's counterparties.

Diversification and cost of funding have improved steadily

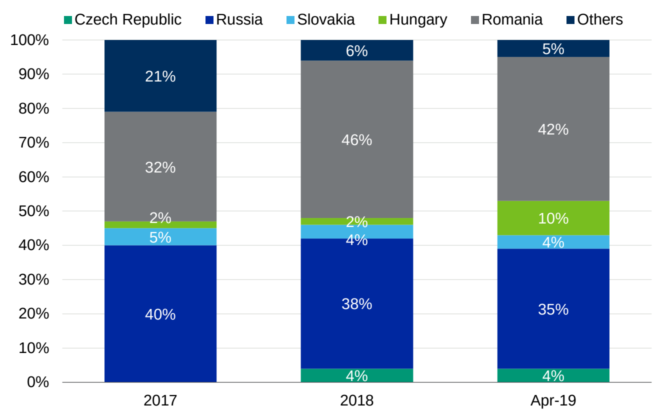
According to our MDB methodology, we measure an issuer's access to funding in part by referring to market-based measures of default risk, specifically the bond- or market-implied rating (MIR). However, IIB's bond issues are too small to have an MIR according to Moody's Analytics Methodology (June 2016, page 10). We therefore use the MIRs of rating peers BSTDB and EDB, which are currently Ba1, respectively, equivalent to a "Low" score, as a proxy for IIB's MIR.

Still, IIB's ability to raise financing improved significantly over the last few years, especially with respect to the diversity of its investor base's geography and currencies (see Exhibit 12). IIB's cost of funding also fell and fell by 20 basis points in absolute terms from 2017 to a record low in 2018. The bank's long-term funding totaled €680 million at the end of 2018, of which 91% was provided by bond issues raised in EU countries' markets and another 9% from other MDBs. IIB successfully issued its first bond denominated in Czech koruna and had a fourth bond placement in Romania in both lei and euro (see Exhibit 13). The latter was IIB's largest single placement so far, amounting to €145 million and with more than 30 investors and nine countries participating.

Exhibit 12

Long-term funding is increasingly diversified by country ...

% share of total funding

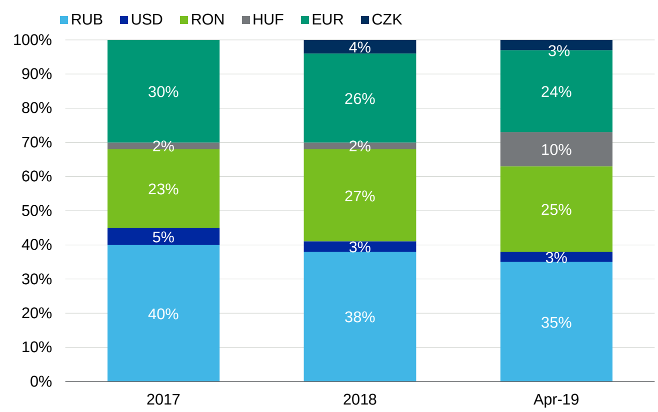


Sources: IIB, Moody's Investors Service

Exhibit 13

... and currency

% share of total funding



Sources: IIB, Moody's Investors Service

The relocation of the headquarters to Budapest will improve funding options

This trend is likely to continue now that IIB has formally moved its headquarters to Budapest, enabling it to be classified as an EU-registered development bank with repo eligibility. Being an EU-registered development bank means that its paper can be included in various central bank lists for repo eligibility and for lower risk-weighting. IIB expects having a European "address" will broaden its investor pool as it will shed the image of being associated with Russia, which has prevented some investors from acquiring IIB's bonds because of sanction-related concerns. Such investors would include larger MDBs that were unable to fund the bank previously although they work with IIB on projects. After initially raising most of its funding in Russia, IIB now issues in more member states in a sign of its commitment to the development of those countries' capital markets.

The expansion of the investor base will likely further reduce the bank's cost of funding, allowing it to be competitive in lending to higher quality projects in the member countries where interest margins have been too narrow.

IIB's cost of funding has also benefited from its rating being raised in the past year to an A-rating by us and another major credit rating agency. This allows it to become eligible for lower risk-weighting of 30% according to Basel III rules, rather than the 50% assigned to Baa-rated multilateral institutions.

The impact of these changes has already been seen in recent months. In April, IIB closed a CZK750 million tap of an existing bond issued last year in Prague, with pricing at a discounted margin of 3M Pribor + 0.35%. This compares to 3M Pribor + 0.55% when the bond was first issued (see Exhibit 14). The lower rate gives us a clear indication of the positive effect the recent events mentioned can have on IIB's cost of funding. In addition, the original size of the issue was doubled to CZK1.5 billion, improving the bond's liquidity.

Exhibit 14
IIB's outstanding bonds

Type	Placement date	Issued amount	Coupon Rate	Maturity	Put Date
Hungarian Bond	March 2019	24.7 bn HUF	2.00%	Mar-22	
Czech Bond	April 2018	1500 mn CKZ	PRIBOR 3M + 0.55%	Apr-21	
Romanian Bond	October 2018	80 mn EUR	1.50%	Oct-21	
Romanian Bond	October 2018	300 mn EUR	ROBOR 3M + 1.4%	Oct-21	
Romanian Bond	September 2017	60 mn EUR	1.59%	Sep-20	
Romanian Bond	September 2017	300 mn RON	Robor 3M + 1.5%	Sep-20	
Russia exchange-traded bond	June 2017	10 bn RUB	8.75%	Mar-27	Mar-20
Romanian Bond	September 2015	300 mn RON	3.4%	Sep-19	
Russian Bond series-04	November 2015	5bn RUB	8.15%	Nov-2025	Nov-20
Russian Bond series-03	September 2015	4bn RUB	0%	Nov-2024	Jun-18
Russian Bond series-02	April 2015	3bn RUB	9.50%	Apr-2025	Apr-19
Russian Bond series-01	October 2015	2bn RUB	0.01%	Apr-2024	Oct-18
Slovakian Bond	October 2014	30mn EUR	3.5%	Oct-19	

Source: IIB, Moody's Investors Service

Strength of member support: High

Further increase in paid-in capital reflects strong member support

Factor 3

Scale	Very High	High	Medium	Low	Very Low	
+		■				-

Contractual support primarily manifests itself in the callable capital pledge, which is a form of emergency support. Extraordinary support is a function of shareholders' ability and willingness to support the institution in ways other than callable capital. Strength of member support can increase the preliminary rating range determined by combining factors 1 and 2 by as many as three scores.

We assess IIB's strength of member support as "High" to reflect its very high contractual support, which in turn is measured by the coverage of the outstanding debt stock by callable capital, mainly because of IIB's still relatively low, although increasing, debt load. Contractual support and extraordinary support remain strong even though the debt-to-equity ratio is rising, and the score we assign has benefited from our upgrades in the sovereign ratings of member states. IIB's strength of member support assessment is also bolstered by the institution's low member concentration and diversity, that is, the limited economic and financial linkages among its member states, compared especially with regionally focused MDB peers. IIB's 2018-22 mission strategy to facilitate connectivity and integration between member states' economies is unlikely to unravel that element of strength.

Changes regarding member support emphasize members' commitment to IIB

IIB's authorized capital increased to €2 billion in 2018 from €1.3 billion in 2017 after a protocol amending the agreement establishing the IIB and its charter was put into force in August 2018. At the same time, unsubscribed capital was increased by €875.5 million from €175.5 million. At this time, paid-in capital rose by €4 million to €319 million as Romania reallocated its capital share from unsubscribed to paid-in, making a partial contribution of the €7.6 million planned since the relaunch. Similarly, in December 2018, the Czech Republic reallocated €7 million from its callable capital to its paid-in capital. Romania completed its capital contribution from the relaunch program earlier this year, boosting its share to 8% of IIB's capital, causing the overall share of EU member states to rise to 51% (see Exhibit 15) at this point.

Development strategy further increases paid-in capital further and opens up the possibility of new shareholders

In 2018, the bank's shareholders formally approved the new capitalization program that was originally envisaged in the bank's development strategy for 2018-22. This further strengthens the capitalization plan through an increase of €200 million in paid-in capital. While the previous strategy included only €100 million of paid-in capital and €100 million in subordinated capital, the new capitalization program will be distributed pro rata with €50 million planned for 2020 and €75 million for both 2021 and 2022.

The new capitalization program is necessary for IIB to achieve its ambitious growth plans, which include the possibility of accepting two-three new shareholder countries from Europe or Asia. The new statutory documents make it simpler for a country to join the bank, since they amended IIB's voting method to a proportional system relative to each member's shareholding in the bank, compared to a one vote per country approach previously. This voting system provides an encouragement to countries to increase their paid-in capital.

Exhibit 15
Recent changes in IIB's capital structure has increased the share of EU member states

	Dec-2017				Aug-2018				Dec-2018				Mar-2019			
	After the contribution of Mongolia				After the entry into force of the statutory documents and the contribution of Romania				After contribution of Czech Republic				After Romania completed its contribution from the re-launch program			
	Paid in-capital		Callable capital		Paid-in-capital		Callable capital		Paid in-capital		Callable Capital		Paid in-capital		Callable Capital	
	Mil. EUR	% share of total	Mil. EUR	% share of total	Mil. EUR	% share of total	Mil. EUR	% share of total	Mil. EUR	% share of total	Mil. EUR	% share of total	Mil. EUR	% share of total	Mil. EUR	% share of total
Russia	150.0	47.6%	430.7	53.2%	150.0	47.0%	430.7	53.5%	150.0	46.0%	430.7	53.9%	150.0	45.5%	430.7	54.2%
Bulgaria	42.2	13.4%	80.8	10.0%	42.2	13.2%	80.8	10.0%	42.2	12.9%	80.8	10.1%	42.2	12.8%	80.8	10.2%
Hungary	40.0	12.7%	81.4	10.1%	40.0	12.5%	81.4	10.1%	40.0	12.3%	81.4	10.2%	40.0	12.1%	81.4	10.2%
Czech Republic	30.4	9.6%	95.2	11.8%	30.4	9.5%	95.2	11.8%	37.4	11.5%	88.2	11.0%	37.4	11.3%	88.2	11.1%
Romania	18.5	5.9%	58.2	7.2%	22.5	7.0%	54.2	6.7%	22.5	6.9%	54.2	6.8%	26.1	7.9%	50.6	6.4%
Slovak Republc	21.5	6.8%	41.3	5.1%	21.5	6.7%	41.3	5.1%	21.5	6.6%	41.3	5.2%	21.5	6.5%	41.3	5.2%
Cuba	5.4	1.7%	18.0	2.2%	5.4	1.7%	18.0	2.2%	5.4	1.6%	18.0	2.3%	5.4	1.6%	18.0	2.3%
Vietnam	3.7	1.2%	1.0	0.1%	3.7	1.2%	1.0	0.1%	3.7	1.1%	1.0	0.1%	3.7	1.1%	1.0	0.1%
Mongolia	3.4	1.1%	2.8	0.3%	3.4	1.1%	2.8	0.3%	3.4	1.0%	2.8	0.4%	3.4	1.0%	2.8	0.4%
Unsubscribed quota			175.5				875.5				875.5				875.5	
Total piad-in capital	315.0				319.0				326.0				329.6			
Total callable capital			809.5				805.5				798.5				794.9	
TOTAL AUTHORIZED CAPITAL*			1300				2000				2000				2000	

*paid-in + callable + unsubscribed quota
Source: IIB, Moody's Investors Service

Members' callable capital complements IIB's own resources

In common with most MDBs, IIB's members have committed to callable as well as paid-in capital. This capital is meant to be made available to the bank in the event of an emergency where it is unable to pay its debt obligations. The responsibility of members to provide such capital when called is proportional to their shareholdings in the bank. At the end of 2018, callable capital accounted for 71% of the subscribed capital of €1.12 billion, while paid-in capital accounted for the remaining 29%, which is relatively large compared with some other MDBs.

Unique to IIB is the unsubscribed share of the €2 billion in total authorized capital, which first arose as a result of a settlement with Hungary and Poland in 2012 in the context of their exit from IIB in 2000. Following Hungary's re-accession to IIB as a shareholder in 2015, this share fell to €175.5 million (as of the end of July 2015) from €296.9 million at the end of 2014. The updated statutes, which came into force in August 2018, increased the authorized capital to €2 billion, of which the unsubscribed part increased to €875.5. The latter can be subscribed both by existing members and any new countries/IFIs that might request IIB membership.

Callable capital from investment grade shareholders is increasing

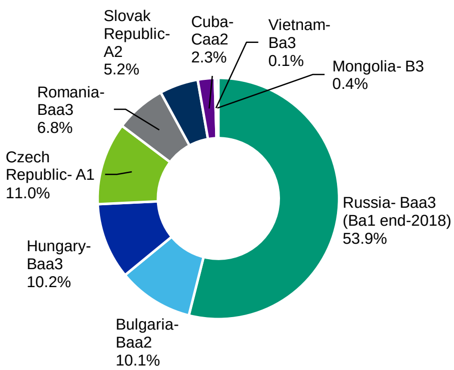
We measure the strength of contractual support by looking at the callable capital coverage pledged by investment-grade rated members (those rated Aaa to Baa3) relative to an MDB's gross debt stock. Following Hungary's return as a shareholder and its upgrade to Baa3, the share of callable capital pledged by members rated Aaa to Baa3 increased to 44% from 33% in 2017. The credit profile of two of IIB's very small shareholders improved modestly in 2018, when the outlook on Mongolia (B3 stable) was moved to stable from negative and Vietnam (Ba3 stable) was upgraded by one notch. The most recent upgrade of Russia to investment grade status in February 2019 has raised the share of investment-grade shareholders to 96.2% from 43.3% as of the end of 2018 (see Exhibit 16). In a scenario where no member would be downgraded within 2019, the share of Aaa-Baa3 members will return to the level before the downgrade of Russia and the weighted median shareholder would improve from its current level at Ba1.

The coverage of IIB's debt stock by callable capital from investment-grade rated shareholders weakened over the last two years, against the background of the significant rise in its debt. Thus, IIB's debt as a proportion of discounted callable capital dropped in 2017 to 202% but improved in 2018 to 213%, although leaving the contractual support score at "High". The ratio is likely to improve, assuming the change in callable capital in the investment grade territory due to the recent upgrade of Russia's rating.

At 181%, IIB's debt-to-discounted callable capital ratio is higher than its peers rated close to its own rating, but the same ratio is much lower than that of higher rated supranationals, such as Eurofima at 830% (see Exhibit 17).

Exhibit 16

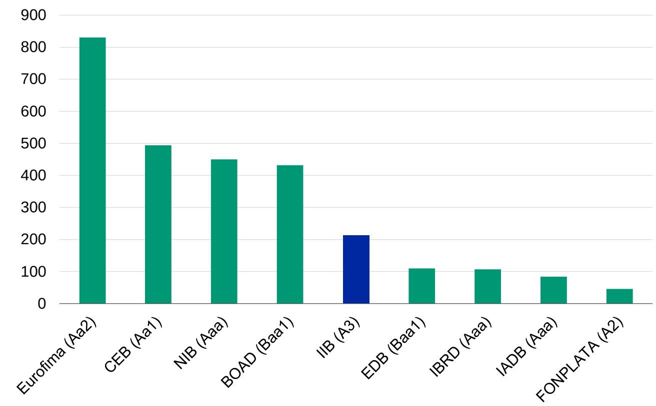
The callable capital coverage pledged by investment grade rated members was 43% at the end of 2018 and 96.2% now



Sources: IIB, Moody's Investors Service

Exhibit 17

IIB's debt-to-discounted callable capital compares well with its higher rated peers



Source: Moody's Investors Service

As is the case for many other MDBs, IIB can call capital from its shareholders if it is needed to cover the bank's obligations. The decision to call capital requires a double majority, first a three-quarters majority of shares and a simple majority in the council. The procedure to call capital was not very well articulated under the old regime, which has changed with the new charter. The new charter states that the members of the board prepare the necessary materials and proposals to present to the board of directors and board of governors, and that the call will then be initiated by the board of governors. As with many other MDBs, there is no precisely specified time frame when called capital will have to be provided, and IIB's recent experience with regard to paid-in capital provides little comfort that payment would be speedy. Moreover, the rules do not specify the consequences for a member state should one or more fail to comply with the obligation to pay additional capital at IIB's request.

Extraordinary support is assessed at "Medium" given members' willingness to increase paid-in and authorized capital

We consider two elements – ability and willingness – when assessing the likelihood that an institution will benefit from extraordinary support from its members above and beyond their contractual obligations should the institution come under severe stress. IIB's median-weighted shareholder rating is Ba1, which leads to a "Low" assessment for members' ability to support MDBs. This score was lowered in 2015 following the downgrade of Russia's government bond rating to Ba1 from Baa3, given Russia's dominant stake in IIB, but is likely to improve next year due to the recent upgrade of Russia's rating to investment grade.

Still, the relaunch of the bank in 2012 came with increased paid-in capital plus an additional €200 million is due in by 2022. The mandate of the bank has been to sharply increase the balance sheet and engage in lending projects in the member countries, which it has done successfully. These factors leads to a somewhat higher "Medium" score for willingness to support. However, given the short track record after the relaunch, should substantial financial problems re-emerge at IIB, we think there is some possibility that shareholders would choose to wind down the institution rather than inject additional funds.

We also consider the priority of support that IIB's shareholders would attach to the bank as "Medium", which is constrained by IIB's small, although growing, size and limited economic presence. This is particularly true for EU shareholders, which we think are more likely to support the EIB, the EU and other European MDBs rather than the IIB.

New governance structure confirms the increased importance of the IIB to its member states

The new IIB board of governors is composed of the highest-level officials from member countries' finance ministries and central banks rather than their appointees, which raises the board's stature and the member countries' involvement with the bank's operations. As discussed previously, IIB transitioned from a two-tier governance structure to a three-tiered system late last year.

No adjustments are added to arrive at the "High" score for strength of member support

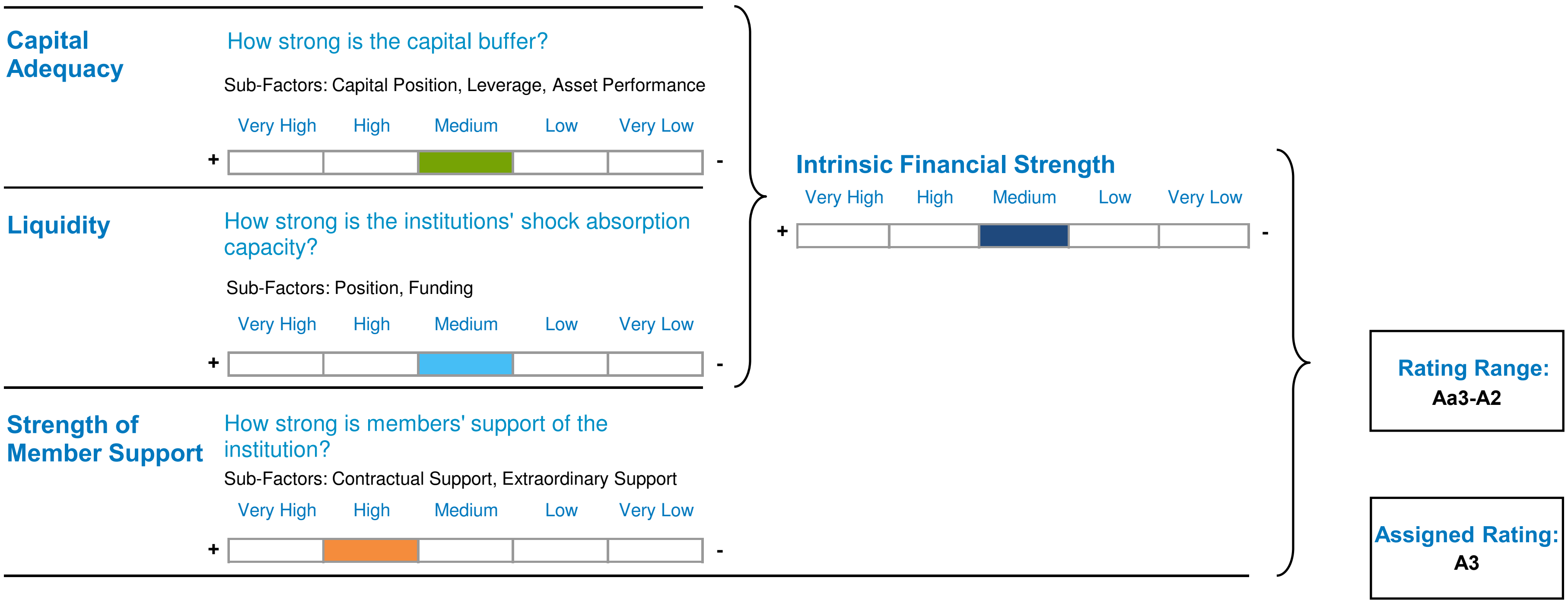
Our assessment of IIB's strength of member support also takes into account the "Low" economic and financial linkages among IIB member states, and the "Medium" correlation of the bank's members and its assets. There is also no joint and several support in place given that each member state is only liable for its own share of callable capital. We regard the member concentration as "Medium". Overall, we see no need to adjust the strength of member support and consider the overall score well-placed at "High".

Rating range

Combining the scores for individual factors provides an indicative rating range. While the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the rating range. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the indicative rating range. For more information please see our Supranational Rating Methodology.

Exhibit 18

Supranational rating metrics: International Investment Bank



Source: Moody's Investors Service

Comparatives

This section compares credit relevant information regarding the IIB with other supranational entities that we rate. It focuses on a comparison with supranationals within the same rating range and shows the relevant credit metrics and factor scores. IIB is a small MDB, but is not smaller than all MDB peers rated in the A rating range, i.e. Fonplata and GuarantCo, and not much smaller than BSTDB. Like the two smaller MDBs, IIB does not have large enough issuance to have a bond-implied rating. Still, it has recently obtained funding at a lower cost than higher-rated BSTDB. Starting from a very modest-sized portfolio at the time of the 2014 re-launch, the expansion in lending has been rapid. IIB is the only A-rated MDB to score "high" membership support and benefits from a somewhat higher average shareholder rating.

Exhibit 19

International Investment Bank's Key Peers

	Year	IIB	AFC	BSTDB	GIC	FONPLATA	CABEI	A Median
Rating/Outlook		A3/STA	A3/STA	A2/STA	A2/STA	A2/STA	A1/POS	--
Total Assets (US$ million)	2017	1,318	4,162	1,817	4,228	852	9,721	1,817
Factor 1		**Medium**	**Medium**	**Medium**	**Medium**	**Medium**	**High**	**--**
Usable Equity/Gross Loans Outstanding + Equity Operations (%)[1]	2017	58.3	75.5	65.3	121.8	123.2	41.2	65.3
Debt/Usable Equity (%)[1]	2017	168.5	164.8	95.2	30.1	3.2	203.8	95.2
Gross NPLs/Gross Loans Outstanding (%)[2]	2017	4.5	17.6	2.1	1.3	0.0	0.0	4.5
Factor 2		**Medium**	**High**	**High**	**Medium**	**High**	**Very High**	**--**
ST Debt + CMLTD/Liquid Assets (%)[3]	2017	27.6	12.9	13.6	29.0	0.0	28.7	13.6
Bond-Implied Ratings (Long-Term Average)	2011-2017	--	Ba1	Ba1	Ba2	--	A3	Baa3
Intrinsic Financial Strength (F1+F2)		**Medium**	**Medium**	**Medium**	**Medium**	**Medium**	**High**	**--**
Factor 3		**High**	**Very Low**	**Medium**	**Low**	**Medium**	**Medium**	**--**
Total Debt/Discounted Callable Capital (%)[4]	2017	202.2	--	180.8	--	15.3	579.8	191.5
Weighted Median Shareholder Rating (Year-End)	2017	Ba1	B2	Ba1	Aa3	Ba3	Ba2	Ba1
Rating Range (F1+F2+F3)		**Aa3-A2**	**A2-Baa1**	**A1-A3**	**A2-Baa1**	**A1-A3**	**Aa1-Aa3**	**--**

[1] Usable equity is total shareholder's equity and excludes callable capital

[2] Non performing loans

[3] Short-term debt and currently-maturing long-term debt

[4] Callable capital pledge by members rated Baa3 or higher, discounted by Moody's 30-year expected loss rates associated with ratings.

Source: Moody's Investors Service, respective MDB financial statement

DATA AND REFERENCES

Rating history

Exhibit 20
International Investment Bank

	Issuer Rating		Senior Unsecured	Outlook	
	Long-term	Short-term			Date
Rating Raised	A3	--	A3	STA	Apr-18
Outlook Changed	--	--	--	POS	May-17
Rating Lowered	Baa1	--	Baa1	--	Mar-15
Changed to definitive from prospective	--	--	A3	--	Oct-14
Rating Assigned	--	--	(P)A3	--	Oct-14
Rating Assigned	A3	--	--	STA	Aug-14

Source: Moody's Investors Service

Annual statistics

Exhibit 21

International Investment Bank

	2012	2013	2014	2015	2016	2017	2018
Balance Sheet, EUR Thousands							
Assets							
Cash & Equivalents	100,214	61,535	100,289	159,911	138,368	111,986	96,636
Securities	100,104	135,786	162,510	239,287	269,307	215,427	245,797
Derivative Assets	0	151	311	1,844	14,362	7,761	3,720
Net Loans	49,105	96,420	240,308	306,339	363,403	664,149	752,835
Net Equity Investments	0	0	0	0	0	0	0
Other Assets	117,653	117,220	108,114	102,022	96,003	96,717	95,369
Total Assets	**367,076**	**411,112**	**611,532**	**809,403**	**881,443**	**1,096,040**	**1,194,357**
Liabilities							
Borrowings	0	0	133,299	321,667	411,946	666,820	681,007
Derivative Liabilities	0	0	21,705	29,898	11,623	15,073	50,943
Other Liabilities	11,987	58,740	67,113	60,135	67,656	18,485	86,408
Total Liabilities	**11,987**	**58,740**	**222,117**	**411,700**	**491,225**	**700,378**	**818,358**
Equity							
Subscribed Capital	1,003,100	1,003,100	1,003,100	1,124,500	1,124,500	1,124,500	1,124,500
Less: Callable Capital	837,852	761,785	730,482	821,447	811,447	809,538	798,538
Equals: Paid-In Capital	165,248	241,315	272,618	303,053	313,053	314,962	325,962
Retained Earnings (Accumulated Loss)	149,870	76,059	78,687	62,925	64,981	65,783	38,137
Accumulated Other Comprehensive Income (Loss)	2,256	2,628	4,238	2,056	802	1,005	5,622
Reserves	37,715	32,370	33,872	29,669	11,382	13,912	6,278
Total Equity	**355,089**	**352,372**	**389,415**	**397,703**	**390,218**	**395,662**	**375,999**

Data is reported under IAS 39 until 2017 and IFRS 9 in 2018
Source: IIB audited statements, Moody's Investors Service

Exhibit 22

International Investment Bank

	2012	2013	2014	2015	2016	2017	2018
Income Statement, EUR Thousands							
Net Interest Income	**8,658**	**12,921**	**12,022**	**9,388**	**4,804**	**3,397**	**23,612**
Interest Income	8,690	13,353	16,799	27,132	32,455	35,963	62,803
Interest Expense	32	432	4,777	17,744	27,651	32,566	39,191
Net Non-Interest Income	**14,027**	**22,242**	**19,168**	**17,057**	**22,914**	**29,652**	**3,892**
Net Commissions/Fees Income	170	42	-75	415	705	1,630	1,381
Income from Equity Investments	182	362	0	0	0	123	6
Other Income	13,675	21,838	19,243	16,642	22,209	27,899	2,505
Other Operating Expenses	**15,647**	**22,430**	**23,380**	**18,223**	**19,359**	**19,879**	**21,329**
Administrative, General, Staff	13,503	16,751	16,931	16,908	18,939	18,872	20,442
Grants & Programs	0	0	0	0	0	0	0
Other Expenses	2,144	5,679	6,449	1,315	420	1,007	887
Pre-Provision Income	**7,038**	**12,733**	**7,810**	**8,222**	**8,359**	**13,170**	**6,175**
Loan Loss Provisions (Release)	4,782	10,105	3,572	6,166	7,557	12,165	553
Net Income (Loss)	**2,256**	**2,628**	**4,238**	**2,056**	**802**	**1,005**	**5,622**
Other Accounting Adjustments and Comprehensive Income	0	0	0	0	0	0	0
Comprehensive Income (Loss)	**2,256**	**2,628**	**4,238**	**2,056**	**802**	**1,005**	**5,622**

Data is reported under IAS 39 until 2017 and IFRS 9 in 2018
Source: IIB audited statements, Moody's Investors Service

Exhibit 23

International Investment Bank

	2012	2013	2014	2015	2016	2017	2018
Financial Ratios							
Capital Adequacy, %							
Usable Equity / (Loans + Equity)	279.9	365.5	159.7	125.8	102.5	58.3	48.7
Debt/Usable Equity	0.0	0.0	34.2	80.9	105.6	168.5	181.1
Allowance For Loan Losses / Gross NPLS	90.7	0.0	44.3	65.7	117.2	48.4	128.9
NPL Ratio: Non-Performing Loans / Gross Loans	67.6	0.0	3.3	4.7	3.9	4.5	1.9
Return On Average Assets	0.6	0.7	0.8	0.3	0.1	0.1	0.5
Interest Coverage Ratio (X)	71.5	7.1	1.9	1.1	1.0	1.0	1.1
Liquidity, %							
St Debt + CMLTD / Liquid Assets	0.0	0.0	31.6	16.2	40.9	27.6	40.5
Bond-Implied Rating	--	--	--	--	--	--	--
Liquid Assets / Total Debt	--	--	197.2	124.1	99.0	49.1	50.3
Liquid Assets / Total Assets	54.6	48.0	43.0	49.3	46.3	29.9	28.7
Strength of Member Support, %							
Callable Capital (CC) of Baa3-Aaa Members/Total CC	96.5	96.5	96.4	33.5	44.0	44.2	43.3
Total Debt/Discounted Callable Capital	0.0	0.0	20.9	125.2	124.8	201.7	213.4
Weighted Median Shareholder Rating (Year-End)	Baa1	Baa1	Baa1	Baa1	Baa1	Ba1	Ba1

Source: IIB audited statements, Moody's Investors Service

Moody's related publications

» **Issuer Comment:** International Investment Bank (IIB)- Move to Budapest from Moscow is expected to raise profile and lower funding costs, a credit positive, 12 December 2018

» **Credit Opinion**: International Investment Bank (IIB) – A3 stable: Regular update, 30 April 2018

» **Rating Action**: Moody's upgrades IIB's rating to A3 from Baa1; outlook changed to stable from positive, 30 March 2018

» **Rating Methodology**: Multilateral Development Banks and Other Supranational Entities, 17 September 2018

» **Rating Methodology**: Sovereign Bond Ratings, 27 December 2018

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Related websites and information sources

» Sovereign and supranational risk group web page

» Sovereign and supranational rating list

» The International Investment Bank (IIB) website

MOODY'S has provided links or references to third party World Wide Websites or URLs ("Links or References") solely for your convenience in locating related information and services. The websites reached through these Links or References have not necessarily been reviewed by MOODY'S, and are maintained by a third party over which MOODY'S exercises no control. Accordingly, MOODY'S expressly disclaims any responsibility or liability for the content, the accuracy of the information, and/or quality of products or services provided by or advertised on any third party web site accessed via a Link or Reference. Moreover, a Link or Reference does not imply an endorsement of any third party, any website, or the products or services provided by any third party.

Authors
Kristin Lindow
Senior Vice President

Ellen Kockum
Associate Analyst

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

REPORT NUMBER 1163559

MOODY'S INVESTORS SERVICE