

## ISSUER COMMENT

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## International Investment Bank (IIB)

Move to Budapest from Moscow is expected to raise profile and lower funding costs, a credit positive

On 10 December, [International Investment Bank \(IIB, A3 stable\)](#) announced that its new Board of Governors unanimously voted to relocate IIB's headquarters to Budapest, [Hungary \(Baa3 stable\)](#) from Moscow, [Russia \(Ba1 positive\)](#). IIB is a global rather than a regional multilateral development bank, whose members include [Russia \(Ba1 positive\)](#), [Czech Republic \(A1 positive\)](#), [Hungary \(Baa3 stable\)](#), [Slovakia \(A2 positive\)](#), [Romania \(Baa3 stable\)](#) and [Bulgaria \(Baa2 stable\)](#) in Europe; [Vietnam \(Ba3 stable\)](#) and [Mongolia \(B3 stable\)](#) in Asia; and [Cuba \(Caa2 stable\)](#) in Latin America. Moving the bank's headquarters to within the European Union (EU) is a part of a wider management strategy to integrate further into Central and Eastern Europe (CEE) region, which also involves increasing the size of paid-in capital by €200 million. In effect, the move will be another relaunch of the bank only seven years after it reinvented itself in 2012.

The relocation decision is credit positive since it is expected to lower IIB's cost of funding by reducing the perceived risks associated with having its headquarters in Russia. It will also increase IIB's investor diversity and its visibility and attractiveness to potential new shareholders.

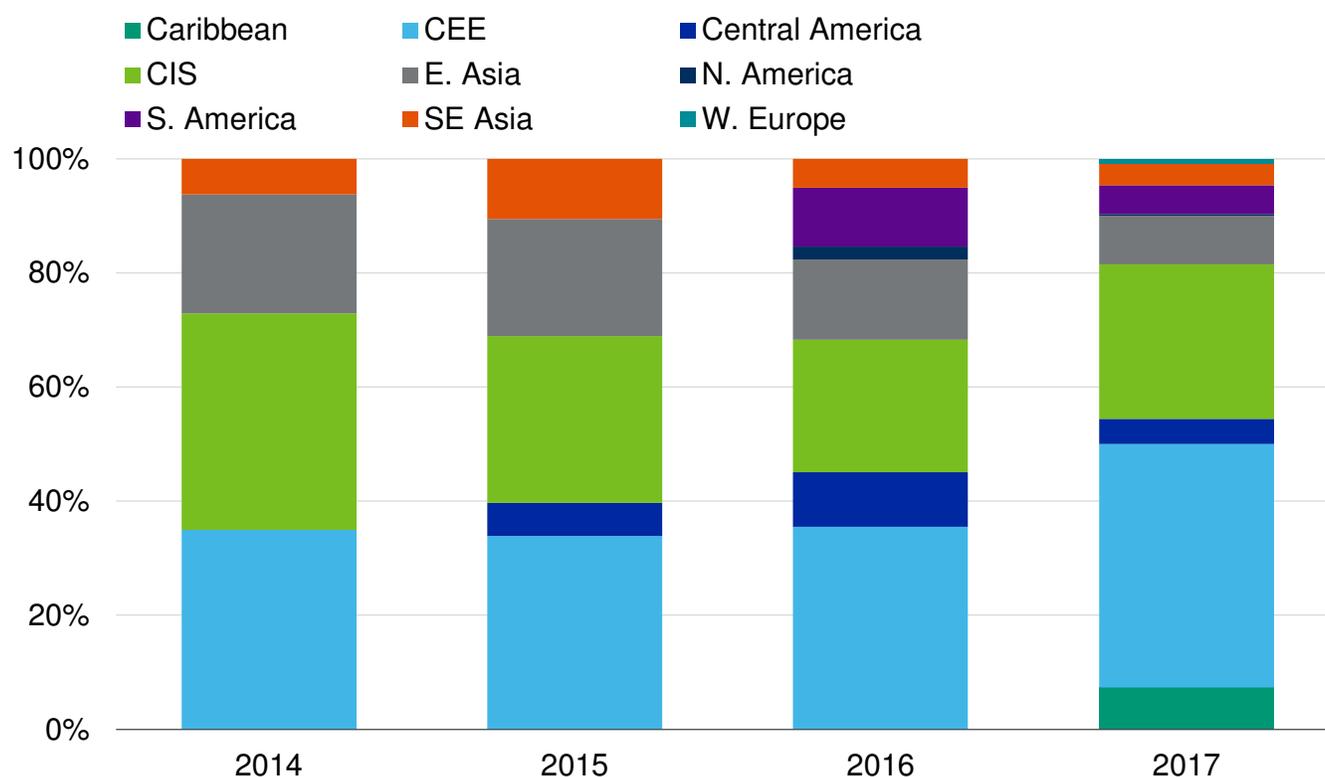
Although IIB was not subject to any of the international sanctions placed on Russia, perceptions nonetheless persisted about risks related to its Moscow location, causing some investors to refrain from buying IIB bonds or participating in its loan syndications. Consequently, we expect the move into the EU to raise its profile and trigger a decline in borrowing costs, along with increasing the diversity of its investor base. IIB will be the only multilateral development bank headquartered not only in Hungary, but in all of CEE outside the Commonwealth of Independent States region. Loans to borrowers among IIB's EU members amounted to half of IIB lending as of June 2018, up from 35% at the end of 2014.

The decision to move IIB's headquarters to Budapest from Moscow in 2019 was unanimously approved in the bank's first-ever Board of Governors meeting on 3-4 December. The revamping of the IIB management structure became effective in August after the ratification of new statutes by all nine member states. This came just a few months after the launch of the bank's 2018-22 Development Strategy, in which both management and shareholders agreed to increase IIB's presence in its member countries, with a greater focus on projects in EU member countries.

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. Accordingly, IIB transitioned from a two-tier governance structure to a three-tiered system, with a board of governors, a board of directors and a management board.

IIB's move to Budapest will facilitate its new development strategy. IIB has continuously diversified its portfolio across member countries and has expanded its presence in CEE countries (see exhibit) and away from Russia, whose borrowers took the largest share of IIB loans at the time of the bank's relaunch in 2012. By the end of 2019, the bank plans to relocate most of its front office to Budapest as well as staff from key middle office departments such as compliance, legal and risk. Over the medium term the bank plans to move most of its staff to Budapest with the exception of about 25% of the staff who will stay in the Moscow office (which is now to become a branch of IIB) in order to cover operations in the Bank's non-EU member states. Also under the new statutes, the voting system changed to a pro-rata voting system that will make each member states' votes proportional to its share of paid-in-capital.

Diversification of IIB's loan portfolio across countries has stepped up in the past two years



Notes: CIS = Commonwealth of Independent States; CEE = Central and Eastern Europe  
Sources: IIB and Moody's Investors Service

IIB's new statutes increased the bank's paid-in capital by €200 million to €535 million over the years until the end of 2022. The bank's development strategy foresees the potential for two or three more countries to join IIB, possibly from the CEE region. This expansion should be facilitated by IIB's presence in Hungary, as will the addition of new staff, which will be an opportunity to bring in knowledge from diverse international backgrounds. The increase in capital will support the bank's loan growth as it expands its operations within its member countries, in particular within its EU members.

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## Moody's related publications

- » **Rating action:** [Moody's upgrades IIB's rating to A3 from Baa1; outlook changed to stable from positive](#), 30 April 2018
- » **Credit opinion:** [International Investment Bank - Update following upgrade to A3 stable from Baa1 positive](#), 30 April 2018
- » **In-depth research:** [International Investment Bank, Annual credit analysis](#), 17 May 2018

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