INTERNATIONAL INVESTMENT BANK

Vaci ut, 188, H-1138, Budapest, Hungary
Phone: : +36 1 727 8888
Fax: : +7 (499) 975-20-70
E-mail: mail@iibbank.com

Fitch Ratings: IIB HQ Move Highlights Shift Towards CEE Lending

December 19, 2018 Source: Fitch Ratings

Fitch Ratings-London/Paris-19 December 2018: International Investment Bank's (IIB, BBB+/Stable) decision to move its headquarters to Budapest from Moscow highlights its continued expansion into Central and Eastern Europe (CEE), Fitch Ratings says. The relocation could strengthen our assessment of IIB's operating environment and strategy, while a EUR200 million capital increase could support our assessment of its public mandate.

IIB is a multilateral development bank (MDB) that supports SMEs, infrastructure, and joint-investment projects. Capital is contributed by nine sovereigns. The decision to move the bank's headquarters, which is a very rare step by a supranational, was formally approved at the inaugural meeting of the new Board of Governors in Varadero, Cuba on 3-4 December.

The relocation is in line with the bank's continued expansion into CEE, which at end-1H8 accounted for 50.2% of total loans and 48.7% of total borrowings, up from 33.1% and 30.7% respectively at end-2016. The move was originally proposed by Hungarian Prime Minister Viktor Orban at a summit with Russian President Vladimir Putin in September. The operational transition to Budapest is expected to start in 2019 with the signing of the host country agreement and registration of IIB's new legal address anticipated in 1H19.

A new capitalisation programme of EUR200 million in paid-in capital was formally approved during the Varadero meetings. The capital increase, scheduled for 2020-2022, would boost the bank's lending capacity. At end-1H18, IIB's total banking exposure was EUR0.8 billion, which is relatively low among Fitch-rated MDBs.

Our upgrade of IIB's rating to 'BBB+'/Stable from 'BBB'/Positive in November reflected a strengthening in the bank's overall risk profile, including increased geographical diversification of its loan portfolio, and an improved risk management framework.

The move to Budapest could further support the rating for IIB via our assessment of its business environment given that Hungary outperforms Russia in the World Bank's Worldwide Governance Indicators. If the move led to greater loan diversification and supported the shift towards lending in higher-rated CEE sovereigns, over time this could boost our assessment of the bank's strategy.

Meanwhile, the EUR200 million capital injection, which is a significant increase on the end-1H18 stock of capital of EUR368 million, highlights the importance of IIB to its shareholders at a time when capitalisation among MDBs has generally failed to keep pace with lending. This could contribute to a stronger assessment of the importance of IIB's public mandate, although this would remain constrained by the small size of the bank, which had total assets of EUR1.13 billion at end-1H18. This means that its role in providing development financing among members would remain limited relative to total funding needs.