FitchRatings

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Fitch Affirms International Investment Bank at 'A-'; Outlook Stable

Fitch Ratings - Paris - 18 Aug 2021: Fitch Ratings has affirmed International Investment Bank's (IIB) Long- and Short-Term Term Issuer Default Ratings (IDR) at 'A-' and 'F1', respectively. The Outlook is Stable.

Key Rating Drivers

The ratings of IIB reflect its Standalone Credit Profile (SCP) of 'a-', which is driven by 'excellent' capitalisation, robust liquidity and a stable business environment. The bank continues to increase and diversify its lending operations and shareholding structure across the EU following the relocation of its headquarters to Budapest from Moscow in 2019.

The bank's strategy has not materially changed as a result of the Covid-19 pandemic. Contrary to multilateral development banks (MDBs) with a clear counter-cyclical mandate, IIB did not announce a Covid-19 response package and has not deviated from its established business plan. Compared with other geographic regions, the ratings of IIB's shareholders have, so far, been resilient to the pandemic. Of the eight shareholders rated by Fitch, two (Bulgaria and Vietnam) have Positive Outlooks and two (Romania and Slovakia) have Negative Outlooks.

IIB's solvency assessment of 'a', which remains unchanged from last year's, balances the bank's 'excellent' capitalisation and 'moderate' risk profile. The equity/assets and guarantees ratio, at 28% at end-2020, remains above Fitch's 25% threshold for 'excellent', and the usable capital/risk-weighted-assets (FRA) ratio has stayed above the 35% threshold that is consistent with an 'excellent' assessment. Both capitalisation metrics are expected to remain above the 'excellent' thresholds following the receipt of fresh capital as part of an on-going EUR200 million capital increase. Fitch assumes some delays in the receipt of paid-in capital from member states relative to the bank's original expectations (completed by 2022) but expects the amount to be received from its shareholders, in full, by end-2023. Fitch expects IIB's internal capital generation to remain low at around 1%, which represents a weakness compared with rated peers.

IIB's risk profile is expected to remain 'moderate'. Since the last review in September 2020, IIB has seen some further positive developments - most notably the average rating of loans and guarantees has improved to 'BB' at end-2020 from 'BB-' at end-2019, owing to an ongoing lending focus on EU-based borrowers, a trend we expect to continue over the medium term. The share of EU loans continues to increase to record levels (65% at end-2020 versus 54% in 2019), in line with the bank's targets. It should be noted though that the majority of EU exposures are to borrowers in lower-rated, albeit still investment-grade, EU countries. Concentration risk is assessed as 'low' with the five-largest exposures accounting for 27% of IIB's total. Fitch expects concentration metrics to continue to improve over the forecast period to 2023 but to remain within the 'low-risk' range (20%-40%).

IIB allowed payment deferrals until 2021 for some of its borrowers affected by the Covid-19 crisis. In line with Fitch's definition of non-performing loans (NPLs), which deems non-sovereign exposures with a three-month payment delay as non-performing, Fitch has treated these exposures as impaired, resulting in an NPL rate, as defined by Fitch, of 8.1% at end-2020 (a 'high' level). However, IIB has not defined these exposures as 'impaired' and, as such, puts its NPL rate at 2.4% of total loans at end-2020 (2019: 1.6%).

Over 1H21, the majority of those borrowers who benefitted from the Covid-related moratoria have resumed repayments to the bank, with the exception being the borrowers that both IIB and Fitch define as non-performing. Those borrowers that have resumed repayment to IIB are no longer classified as NPLs by Fitch and this drives our expectation of IIB's NPL ratio falling to closer to 3% (a 'moderate' level) by end-2023.

IIB has a strong liquidity buffer, comprising bank deposits and securities at 1.2x short-term debt at end-2020, which we expect to increase above 1.5x through 2023. The credit quality of treasury assets has remained fairly stable from last year, with the share of 'AAA'-'AA' rated assets rising to 32% at end-2020 from 28% a year before. We assess access to capital markets and other alternative sources of liquidity as 'moderate', balancing the bank's limited market issuance with its increased diversification of funding sources. In 2020, the bank registered its first MTN programme of EUR1.5 billion, and to date nine transactions have been successfully launched under the programme.

Fitch does not assign any credit uplift for shareholders' support, which it assesses at 'bbb'. Support is based on the sovereign rating of Russia, given its largest share in the bank's capital. We assess propensity to support as 'moderate', given the small size of the bank in relation to the financing requirements of its member states, which translates into a negative adjustment of one notch.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Solvency (Risks): A sustained stronger risk profile reflecting improvement in credit risk, particularly an improvement in the bank's NPL ratio relative to Fitch's current expectations, to a level commensurate with a 'very low' assessment and a multi-notch improvement in the average rating of the lending portfolio.

- Business Environment: Stronger assessment of the business environment driven by an improved business profile or operating environment. This could reflect greater-than-expected diversification of IIB's operations to higher-rated EU countries and/or improvement in our assessment of the importance of the bank's public mandate for its shareholders.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Solvency (Risks): Deterioration of asset-quality metrics, including an increased in the NPL ratio to over

6% and/or a weakening in the credit quality of IIB's loans.

- Solvency (Capitalisation): Deterioration that leads to either the equity-to-adjusted-assets ratio or FRA ratio falling below their current "excellent" levels, for example, following a sharper rise in lending than expected, losses incurred in the loan portfolio, and/or material delays in receipt of capital payments from member states.

- Business Environment: Weakening in our assessment of the business environment, which could, for example, result from a change in the direction of lending policy towards borrowers in lower-rated countries.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

Key Assumptions

The global economy will develop in line with Fitch's Global Economic Outlook published on 16 June 2021, including marked improvement in GDP growth in 2021 as economies adapt to social distancing and vaccination programmes gather momentum.

Fitch assumes that all of IIB's shareholders who have subscribed in the capitalisation programme will participate in the capital increase with regular paid-in capital disbursements. IIB will remain compliant with its internal prudential limits.

Sources of Information

The source(s) of information used to assess these ratings were IIB's financial statements, and other information provided by IIB.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

IIB has an ESG Relevance Score of '4' for Rule of Law, Institutional & Regulatory Quality. All supranationals have a score of '4'. Supranationals are neither subject to bank regulation nor supervised by an external authority. Instead, supranationals comply with their own set of rules. Fitch pays particular attention to internal prudential policies, including compliance with these policies. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

IIB has an ESG Relevance Score of '4' for 'Governance Structure'. Russia (45% of paid-in capital), as the largest shareholder, exerts a strong influence on the bank's board, management, and strategy. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

IIB has an ESG Relevance Score of 4 for 'Exposure to Social Impact'. The bank has allowed payment deferrals to provide temporary liquidity support to some of its borrowers affected by the coronavirus crisis but had not experienced delays before the deferral was granted. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
International Investment Bank	LT IDR	A-	Affirmed		A-
	ST IDR	F1	Affirmed		F1
• senior unsecured	LT	A-	Affirmed		A-

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

Supranationals Rating Criteria (pub.20 May 2021) (including rating assumption sensitivity)

Additional Disclosures

Solicitation Status

Endorsement Status

International Investment Bank	EU Issued, UK Endorsed

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