

Research Update:

# International Investment Bank Downgraded To 'BBB+' On Reducing Policy Relevance; Outlook Negative

March 30, 2022

## Overview

- The International Investment Bank (IIB) is reducing its balance sheet in response to heightened financial and market confidence risks following Russia's military actions in Ukraine.
- Although deleveraging should bolster IIB's capital and liquidity positions in the short term, it raises concerns about the bank's policy relevance, including its ability to act as a countercyclical lender and its capability to sustainably access international capital markets.
- In addition, key shareholders have announced their intention to withdraw from the institution, which we believe could reduce IIB's policy role further and require IIB to make a significant strategic shift to maintain its policy relevance.
- We have therefore lowered our long-term ratings on IIB to 'BBB+' from 'A-'. The outlook remains negative.

## Rating Action

On March 30, 2022, S&P Global Ratings lowered its long-term foreign and local currency issuer credit ratings on the International Investment Bank (IIB) to 'BBB+' from 'A-'. The outlook remains negative.

At the same time, we affirmed our 'A-2' short-term ratings on IIB.

## Outlook

The negative outlook reflects the risks of a material erosion of IIB's shareholder base due to the announced exit of several key shareholders. If executed, we believe this will erode the bank's policy role, raising concerns regarding its institutional depth and requiring significant changes to its fundamental strategy to avoid losing its policy relevance. These factors pose significant risks to the bank's enterprise risk profile. We believe the shareholder withdrawal process could

### PRIMARY CREDIT ANALYST

**Gabriel Forss**  
Stockholm  
+ 46 84 40 5933  
gabriel.forss  
@spglobal.com

### SECONDARY CONTACT

**Alexander Ekbon**  
Stockholm  
+ 46 84 40 5911  
alexander.ekbon  
@spglobal.com

### RESEARCH CONTRIBUTOR

**Celine Huang**  
London  
(44) 77-9054-1330  
celine.huang  
@spglobal.com

materialize within the next 12 months, leading to an adverse scenario that could result in a multi-notch downgrade.

## **Downside scenario**

We could lower our ratings if shareholders follow through on their intentions to withdraw from the institution, leading to a material erosion of IIB's shareholder base while altering its policy role and institutional underpinnings. Aside from the developing shareholder situation, we could downgrade the bank if financial pressures heighten, for example from a material deterioration of asset quality or disruption to counterparts' payment abilities that depletes IIB's liquidity buffers.

## **Upside scenario**

We could revise the outlook to stable if the withdrawing shareholders reverse course and the bank takes successful steps to reposition its policy function and overall policy relevance while containing asset-quality deterioration.

## **Rationale**

The downgrade reflects our assessment that IIB's policy relevance is reducing as it downscales its operations to manage the repercussions of the Russia-Ukraine conflict on its operations. These include heightened risks to asset quality; reputation risk from its ownership structure and lending book where Russia holds dominant positions, which has disrupted IIB's access to financial markets; and considerable uncertainty regarding IIB's public policy relevance and its relationship with shareholders.

We expect IIB's efforts to preserve its financial position will support its financial resilience in the short term as it reduces its balance sheet. We understand that IIB is taking steps to preserve its financial standing to navigate through the fallout of the Russia's military actions in Ukraine conflict. These include an indefinite pause of all new loan disbursements, the selloff of loans equivalent to at least 20% of the total portfolio, and likely introduction of bond-buyback arrangements. We believe this imminent deleveraging will sustain IIB's liquidity and risk-adjusted capital (RAC) ratio over the short term. We expect IIB would still be able to service its debt obligations, while institutional changes regarding its policy mandate and shareholder structure unfold.

After Russian troops entered Ukraine, several of IIB's shareholders announced they intend to withdraw their participation of the bank. A formal exit process has not yet started, but the announcements imply that some of these shareholders will likely do so. If all of those shareholders withdraw from IIB as announced, those would reduce IIB's shareholder base by 30%.

The withdrawal of several EU shareholders would erode IIB's shareholder base sufficiently to weaken IIB's policy mandate and potentially also its governance structure, while materially altering its geographic reach. Such a development would require IIB to make a significant strategic shift to avoid a material erosion of its policy mandate. We believe the exit process, if initiated, will take place over the next 12 months, during which the remaining shareholder base will become clearer. We understand that the bank's statutes would ensure that the paid-in capital remains in the bank, even if a shareholder withdraws from the institution.

We anticipate that the public-sector nature of IIB's Russian exposures and IIB's preferred creditor characteristics would allow service of loan commitments, amid deteriorating macroeconomic

conditions and capital controls. About 23% of IIB's loan portfolio represents Russian counterparts. We understand that about 80% of these exposures are to state-owned entities and consider that this mitigates payment concerns. We also note that about 75% of its lending is denominated in Russian ruble and understand that there has been no payment disruption for loans denominated in rubles or hard currency so far. This illustrates IIB's preferential treatment and statutory exemption from capital controls. That said, we consider the deteriorating economic environment and still-elevated uncertainties regarding borrowers' payment abilities, poses risks to IIB's financial profile.

## **Ratings Score Snapshot**

Issuer credit rating: BBB+/Negative/A-2

Stand-alone credit profile: a-

Enterprise risk profile: Moderate

- Policy importance: Moderate
- Governance and management expertise: Adequate

Financial risk profile: Very strong

- Capital adequacy: Extremely strong
- Funding and liquidity: Adequate

Extraordinary support: 0

- Callable capital: 0
- Group support: 0

Holistic approach: -1

## **Environmental, social, and governance (ESG) credit factors for this change in credit rating/outlook and/or CreditWatch status:**

- Governance structure

## **Related Criteria**

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Jan. 31, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Ratings List

### Downgraded; Ratings Affirmed

	To	From
<b>International Investment Bank</b>		
Sovereign Credit Rating		
Foreign Currency	BBB+/Negative/A-2	A-/Negative/A-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceld/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.