RATING ACTION REPORT

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Dagong Europe Assigns a Long-Term Credit Rating at 'A-' to International Investment Bank.

Dagong Europe has assigned a Long-Term Credit Rating at 'A-' to International Investment Bank (IIB). The Outlook is 'Stable' and the equivalent Short-Term Credit Rating assigned is 'A-1'.

RATING RATIONALE

The Long-Term Credit Rating takes into account the External Support Assessment (ESA) of 'Very High' potential to receive 'Multilateral/Development Support', due to the existing ownership structure from its member states (Russian Federation 45%, Bulgaria at 12.8%, Hungary 12.1%, Czech Republic 11.3%, Romania 7.9%, Slovak Republic 6.5%, Cuba at 1.6%, Vietnam 1.1% and Mongolia 1.0%). The ratings also reflect IIB's strong financial profile, characterized by an excellent capital level with a Tier 1 ratio of 31% as of YE18. Our credit opinion is based on the following factors:

Strong operational environment

In evaluating the operational environment we take into account the regulatory, legal and economic settings. IIB is registered as a EU development bank; It benefits from the positive economic development in the majority of the countries in which it concentrates its lending exposures, which show strong economic growth and low levels of unemployment. The legal environment is viewed as strong, well-established, stable and predictable.

Sustainable franchise and stable growth in countries with larger exposures

IIB targets a specific market segment to promote economic activities with a strategy that is focused on providing loans and guarantees in companies from member states. We recognise the bank is improving its outreach of economic development financing as a result also of the recent move of headquarters to Hungary at the beginning of 2019. This will allow the bank to reach a larger base of projects for economic development in Eastern European countries.

Very strong capitalisation and satisfactory asset quality

The bank's very strong capitalisation (Tier 1 ratio of 31% and capital at EUR 392.5 at 1H19) reflect both the underlying solid nominal capital levels and the low risk-weighting of its assets as a result of the nature of its development business. Assets quality has been improving following the restructuring of the bank back in 2012, with non-performing loans at 1.9% as of YE18 (compared to 4.5% in 2017). We expect these characteristics to remain in the medium-term.

Market based funding growing and funding costs improving

IIB's funding comes mainly from capital market debt (92% of total funding), which we view as potentially more volatile. However, due to its nature as a multilateral/development bank, access to capital markets has been stable and improving in the last year. The majority of the investors and lenders are banks (48% of total issuances) and from the EU (63%). The latest bond issuance was for EUR 30Mn in Czech Republic with maturity April 2021 and was placed with a record low yield.

Moderate profitability

As per the bank's development mission, profitability is not its main focus, but at the same time it is the bank's mandate to remain self-sustainable. Pre-provision income improved to EUR 6.0Mn in 2018 (2017 EUR 1.0Mn) or 0.5% of average total assets (0.1% in 2017) and reflects the low margins of the bank. The move of headquarters to Hungary will facilitate access to better interest rates and reduce funding costs, which in turn will provide a better base for improvements in pre-provision income. Following the bank's conservative risk approach and no dividend pay-out policy, most of the income is allocated to reserves.

External Support Assessment

Under our external support assessment framework, we assess the possibility of multilateral/development FI support for IIB to be 'Very High' as a result of the shareholders' composition and its mission as a multilateral/development bank. We view that the current member states have a very high likelihood and willingness to support the bank; the capital has increased in the last year to EUR 392.5Mn, of which EUR 329.6 is paid-in capital, compared to a total amount of EUR 2.0bn of authorized capital.

Member states (based on their stake of capital as of 30 June 2019) are Russia 45.5%, Bulgaria 12.8%, Hungary 12.1%, Czech Republic 11.3%, Romania 7.9%, Slovakia 6.5%, Cuba 1.6%, Vietnam 1.1% and Mongolia 1.0%. For the first time, EU countries on aggregate reached a 51% of capital, trend that we expect will be maintained and could also increase further in 2019-2020.

RATING OUTLOOK

The stable outlook reflects the stable credit strength of the bank's financial profile and the view on stable support coming from its current member states.

RATING SENSITIVITIES

The Long-Term Credit Rating could be upgraded in the event of a further improvement in the credit strength of the member states and the willingness/ability to support the bank. In addition, the ratings could be upgraded if we see sustainable reduction in leverage and diversification of funding.

The Long-Term Credit Rating could be downgraded in the events of a change in our ESA due to: 1) a weakening of the credit strength of current member states; and/or 2) a weakening of the willingness to support the bank's operations by its member states and/or reduction of capital.

COMPANY PROFILE

Headquartered in Budapest - Hungary since 2019, International Investment Bank (IIB) is a multilateral banking institution (MBI) that promotes social and economic development, prosperity and cooperation among its members' states. The main countries of operations are Hungary, Russian Federation, Romania, Bulgaria, Slovak Republic, Czech Republic, Mongolia, Vietnam and Cuba. IIB's strategy allows also the bank to be open to provide lending to other countries, aside of its member states, in order to support economic development within its mission.

Its core businesses are: (i) Support of the small and medium-sized businesses and participation in financing socially significant infrastructure projects; (ii) Provide loans through domestic publicly owned financial institutions, development banks, export and import banks and agencies; (iii) Lends in partnership with other international institutions for development projects.

Originally, IIB was established in 1970 by the Soviet Union and other countries. Since 2012, and as a result of a material deterioration of its financial profile, shareholders decided to re-launch IIB, bringing new management, professionals and staff as well as to refocus the strategy and organizational structure.

IIB's capital as of 30 June 2019 by member states is as follows: Russian Federation 45%, Bulgaria at 12.8%, Hungary 12.1%, Czech Republic 11.3%, Romania 7.9%, Slovak Republic 6.5%, Cuba at 1.6%, Vietnam 1.1% and Mongolia 1.0%

FULL LIST OF SOLICITED RATINGS

Long-Term Credit Rating (FC&LC)	A-
Outlook	Stable
Short-Term Credit Rating (FC&LC)	A-1
ESA	Very High, Multilateral / Development

FC&LC: Foreign Currency and Local Currency
Note: IFSA not disclosed in cases of a 'Very High' support assessment for the ESA.

CRITERIA APPLIED

Criteria for Rating Financial Institutions (25 July 2018)
Definitions: Credit Ratings and Other Analytical Products (15 August 2018)

OTHER REGULATORY DISCLOSURES

- The ratings above are solicited and Dagong has received compensation for providing these ratings.
- In determining the ratings, Dagong uses public and non-public information provided by the issuer, public information from reliable third-party sources and internally developed models and analytical tools. Dagong´s analytical team does not take into consideration sources of information deemed not reliable.
- This Rating Action Report was disclosed to the rated entity before being published. Dagong had provided the rated entity a draft ahead of the publication to review for any factual errors and unintentional disclosure of confidential information. Dagong maintains full editorial control over the Rating Action Report, which represents its independent opinion.

For any further information on rating criteria and procedures, please refer to the following links:
http://www.dagongeurope.com/procedures.php
http://www.dagongeurope.com/rating_criteria.php