

ACRA AFFIRMS BBB+ TO INTERSTATE BANK, OUTLOOK STABLE, UNDER THE INTERNATIONAL SCALE AND UPGRADES THE CREDIT RATING UNDER THE NATIONAL SCALE TO AA+(RU), OUTLOOK STABLE

BATCHULUUN LKHAGVAA

Director, Financial Institutions Ratings Group

+7 (495) 139-0480, ext. 135

batchuluun.lkhagvaa@acra-ratings.ru

MIKHAIL NIKOLAEV

Director, Sovereign Ratings and
Macroeconomic Analysis Group

+7 (495) 139-0480, ext. 179

mikhail.nikolaev@acra-ratings.ru

The credit rating has been affirmed to [Interstate Bank](#) (hereinafter, ISBank, or the Bank) at BBB+ under international scale due to ACRA retaining its opinion on the level of support that can be provided to the Bank by its shareholders.

ACRA takes into account the following factors: (1) the generally high importance of ISBank's activities for the shareholder countries and (2) the moderate average creditworthiness assessment of the shareholder countries. The largest share of votes in the Bank's Council (supreme governing body) is held by the Russian Federation.

In addition, ACRA notes the high level of the Bank's capitalization, the relatively high quality of its assets with a significant concentration of credit risk on one jurisdiction of presence and major counterparties, as well as a strong liquidity position with a high share of short-term interbank loans in the funding structure.

The one-notch upgrade of ISBank's credit rating under the national scale for the Russian Federation reflects changes in the [Methodology for Credit Rating Assignment to Sovereign Entities under the International Scale](#) in terms of reflecting the impact of sovereign risks on the final credit rating of the rated entity. The credit rating under the national scale is determined according to the [Methodology for Mapping Credit Ratings Assigned under ACRA's International Scale to Credit Ratings Assigned under ACRA's National Scale for the Russian Federation](#).

ISBank was founded in 1993 by several CIS countries, some of which later formed the Eurasian Economic Union (EAEU), in order to facilitate trade and transactions, as the newly independent states created their own currencies while maintaining close economic ties with Russia. As of end 2020, the Bank's shareholders were Armenia, Belarus, Kazakhstan, the Kyrgyz Republic, Moldova, Russia, Tajikistan, and Turkmenistan. The Bank provides settlement services mainly for trade among CIS countries, undertakes research and economic studies aimed at supporting the central banks of the shareholder countries, and coordinates monetary policies.

KEY ASSESSMENT FACTORS

ACRA assesses support from the shareholder countries taking into account the following factors: (1) the generally high importance of ISBank's activities for the shareholder countries and (2) the moderate average creditworthiness assessment of the shareholder countries. ACRA believes that the Bank's largest shareholder, the Russian Federation, views the importance of the Bank's activities as high, especially in terms of promoting settlements in national currencies of the shareholder countries, which, on the other hand, makes the Bank's creditworthiness

dependent on its sovereign risks. At the same time, ACRA notes that the Bank's relatively small size subjects it to the risk of having its niche role reduced by larger International Financial Institutions (IFIs). In addition, some shareholder countries are exposed to geopolitical risks, the implementation of which may affect, among other things, ISBank's creditworthiness. According to the Agency, all of the above leads to the fact that the support provided to the Bank by shareholders is a key factor in determining its final credit rating, as a result of which it is limited to the average credit rating of the shareholder countries.

The Bank's management quality, strategy, and operational transparency are adequate. The Bank's Council consists of board members from the central banks of the shareholder countries and the chairperson position is on a rotating basis for a maximum term of two years. The management of the Bank has a proven track record of successfully running financial institutions. The Bank has enjoyed the status of de facto settlement institution among the founding member countries since its inception. As per its strategy, the Bank focuses on providing a reliable and efficient settlement platform for the central banks and other financial institutions of the shareholder countries. As the amount of USD settlements has decreased in recent years, partially due to sanctions imposed on Russia by the US and the EU, the Bank is playing an increasingly important role in promoting development, trade, and collaboration amongst its shareholder countries.

Strong capital adequacy. As of end-June 2021, the Bank's Tier 1 capital adequacy ratio was 24.65% (41.94% at end-year 2020). The Bank's total capital stood at RUB 6.9 bln and the return on equity (ROE) ratio stood at 5.9%. As per ISBank's business model, ad-hoc reserves to settlement transactions within the equity structure stood at RUB 2 bln. The Bank also holds a substantial sum of reserves and retained earnings of RUB 4.7 bln, which amounted to 67% of its equity.

ACRA assesses ISBank's risk profile as satisfactory. By the nature of its mandate, the Bank closely collaborates with the central banks of the shareholder countries, operating under the oversight of its Council. The Bank continuously updates its risk management procedures, reporting to and sharing information with international watchdogs and governing bodies for diligent know your client (KYC), anti-money laundering (AML), and anti-terrorism funding (ATF) control practices (in light of increased global scrutiny amid persistent sanctions placed on certain businesses, entities, and individuals). The Bank operates a secure IT platform ensuring seamless transactions that interconnect the networks of the centralized systems of the shareholder countries to other global networks. The Bank does not have a trading portfolio and its market risk to paid-in capital ratio stood at 28.1% as of end-year 2020. Half of the Bank's securities portfolio consists of Russian government and Russian state-owned entity debt and the remaining half is debt securities issued by Russian financial and corporate institutions.

The Bank's liquidity and funding position is adequate. In line with a business model focused on multilateral settlement, the Bank's liabilities consisted mostly of short-term and on demand deposit accounts as of end-year 2020. Current and settlement accounts made up 85.4% of the total liabilities and correspondent accounts stood at 14.4%. ISBank's funding cost is very low, which is in line with the short-term nature of the majority of transactions. The Bank has no outstanding issued public debt, nor does it rely on the money market. However, if necessary, ISBank has at its disposal access to the interbank lending market, where it is a net lender. As of end-year 2020, the Bank's liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) stood at 277% and 263%, respectively.

ACRA assesses support from shareholder countries as moderate. This assessment is supported by two elements: (1) ACRA's view that the importance of ISBank's operations for the shareholder countries is considered generally high and (2) the moderate average creditworthiness assessment of the shareholder countries.

ISBank's credit rating is AA+(RU), outlook Stable, under the national scale for the Russian Federation as per the [Methodology for Mapping Credit Ratings Assigned under ACRA's International Scale to Credit Ratings Assigned under ACRA's National Scale for the Russian Federation](#).

KEY ASSUMPTIONS

- Maintaining systemic importance to the key shareholder countries;
- Maintaining strong asset quality;
- Maintaining current capitalization levels within the 12 to 18-month horizon;
- Continued refinement of governance and risk management policies.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS UNDER THE INTERNATIONAL SCALE

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- Increased creditworthiness of the Bank's key shareholder countries with maintained systemic importance of the Bank for said shareholder countries.

A negative rating action may be prompted by:

- Deterioration in the creditworthiness of shareholder countries;
- Decrease in the Bank's systemic importance for key shareholder countries;
- Deterioration in capital adequacy and risk profile assessments;
- Deterioration in liquidity and funding positions.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS UNDER THE NATIONAL SCALE FOR THE RUSSIAN FEDERATION

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- Increase in ISBank's credit rating under the international scale.

A negative rating action may be prompted by:

- Decrease in ISBank's credit rating under the international scale.

RATING COMPONENTS

SCA: a.

Adjustments: The moderate average support and structure assessment caps the final rating. This is due to the very high level of interconnections between the Bank and its main shareholder countries, especially Russia. In ACRA's view, should the creditworthiness of Russia change, it may affect the creditworthiness of ISBank.

REGULATORY DISCLOSURE

The credit rating has been assigned to Interstate Bank under the international scale based on the [Methodology for Assigning Credit Ratings under the International Scale to International Financial Institutions and Other Supranational Development Institutions](#) and the [Methodology for Credit Rating Assignment to Sovereign Entities under the International Scale](#). The credit rating has been assigned to Interstate Bank under the national scale for the Russian Federation based on the [Methodology for Mapping Credit Ratings Assigned under ACRA's International Scale to Credit Ratings Assigned under ACRA's National Scale for the Russian Federation](#) and the [Key Concepts Used by the Analytical Credit Rating Agency within the Scope of Its Rating Activities](#).

The credit ratings of Interstate Bank under the international scale and the national scale for the Russian Federation were published by ACRA for the first time on March 3, 2020. The credit ratings and their outlooks are expected to be revised within 182 days following the publication date of this press release as per the [Calendar of sovereign credit rating revisions and publications](#).

The credit ratings are based on data provided by Interstate Bank, information from publicly available sources, and ACRA's own databases. The rating analysis was performed using the IFRS financial statements of Interstate Bank. The credit ratings are solicited, and Interstate Bank participated in their assignment.

In assigning the credit ratings, ACRA used only information, the quality and reliability of which was, in ACRA's opinion, appropriate and sufficient to apply the methodologies.

Disclosure of deviations from the approved methodologies. In calculating the indicators used to assess the concentration of credit risks, due to the relatively small share of paid-in capital, total capital was used instead. When assessing the level of potential support to the Bank from the member countries, ACRA considers the Russian Federation as the key shareholder and the most likely source of support for the rated entity. In this regard, ACRA does not use the weighted average assessment of the creditworthiness of the shareholder countries.

ACRA provided additional services to Interstate Bank. No conflicts of interest were discovered in the course of credit rating assignment.

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Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)
75, Sadovnicheskaya embankment, Moscow, Russia
www.acra-ratings.com

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