

November 6, 2020

Lead analysts:

Batchuluun Lkhagvaa, Director
+7 (495) 139-0480, ext. 135
batchuluun.lkhagvaa@acra-
ratings.ru

Mikhail Nikolaev, Associate Director
+7 (495) 139-0480, ext. 179
mikhail.nikolaev@acra-ratings.ru

Key rating assessment
factors

ACRA affirms BBB+ to Interstate Bank, outlook Stable, under the international scale and AA(RU), outlook Stable, under the national scale for the Russian Federation

The credit rating affirmed to [Interstate Bank](#) (hereinafter, ISBank, or the Bank) is primarily driven by its key shareholding sovereigns' support and structure assessment, its systemic importance for the key shareholders, as well as the Bank's strong intrinsic financial strength that stems from strong capital adequacy, an adequate risk profile, and adequate liquidity and funding.

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-June 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. ACRA believes that the Bank's largest shareholder, the Russian Federation, views the importance of the Bank's activities as high, especially in promoting settlements in national currencies 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. Between 2012 and 2016, the Bank reviewed its strategy and business model, which included withdrawing from project finance activities and dedicating its full efforts to 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. However, ACRA notes that the Bank's relatively small size subjects it to the risk of having its niche role reduced by a larger International Financial Institution (IFI). In addition, several of the shareholder countries are susceptible to geopolitical risks.

ISBank's capital adequacy is strong. As of end-June 2020, ISBank's Tier 1 capital adequacy ratio was 52.33% (48.94% at end-year 2019). The Bank's total capital stood at RUB 6.9 bln, which is more than its total liabilities, and the return on equity (ROE) ratio stood at 5.7%. The Bank's profitability was supported by high operating efficiency, as its cost to income (CTI) ratio amounted to 52.2%. As per the Bank's business model, ad-hoc reserves to settlement transactions within the equity structure stood at RUB 2 bln. The Bank also held a substantial sum of reserves and retained earnings of RUB 4.3 bln, which amounted to 62% of its equity.

ACRA assesses ISBank's risk profile as adequate. By the nature of its mandate, the Bank closely collaborates with the central banks of the shareholder countries, operating under the oversight of the Board of 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 23.8% as of end-June 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.

ISBank'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-June 2020. Current and settlement accounts made up 63.7% of the total liabilities and correspondent accounts stood at 35.8%. The Bank's funding cost is very low, which is in line with its short-term nature. The Bank has no outstanding issued public debt, nor does it rely on the money market. However, if necessary, the Bank has at its disposal access to the interbank lending market, where it is a net lender. As of end-June 2020, the Bank's liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) stood at 332% and 207%, respectively.

ACRA assesses support from shareholder countries as moderate. This assessment is supported by two elements: ACRA's view that the importance of ISBank's operations for shareholder countries is considered generally high and the moderate average creditworthiness assessment of 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 on ACRA's International Scale to Credit Ratings Assigned on 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 key member states with maintained systemic importance for said member states.

A negative rating action may be prompted by:

- Deterioration in the creditworthiness of shareholder countries;
- Decrease in 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 under the international scale

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 sovereigns, especially Russia. In ACRA's view, should the creditworthiness of Russia change, it would 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 on the International Scale to International Financial Institutions and Other Supranational Development Institutions](#). 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 on ACRA's International Scale to Credit Ratings Assigned on 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 were published by ACRA for the first time on March 3, 2020. The credit ratings and credit rating outlooks for Interstate Bank are expected to be revised within 182 days following the publication date of this press release as per the [Calendar of planned sovereign credit rating revisions and publications](#).

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

Disclosure of deviations from the approved methodologies. In assessing support from member states in its assessment of support and structure, ACRA omitted the shares of Uzbekistan (already withdrawn as a shareholder) and Ukraine (in the process of withdrawing as a shareholder) from significant shareholders.

No material discrepancies between the provided information and the data officially disclosed by Interstate Bank in its financial statements have been discovered.

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

(C) 2020

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

The Analytical Credit Rating Agency (ACRA) was founded in 2015, with its 27 shareholders representing major Russian corporate and financial institutions and its authorized capital exceeding RUB 3 bln. ACRA's main objective is to provide the Russian financial market with high-quality rating products. Methodologies and internal documents of ACRA are developed in compliance with Russian legislation and with regard to global rating industry best practices.

The provided information, including, without limitation, credit and non-credit ratings, rating assessment factors, detailed credit analysis results, methodologies, models, forecasts, analytical reviews and materials, as well as other information placed on the ACRA website (further referred to as Information), coupled with the ACRA website software and other applications, are intended for information purposes only. Information must not be modified, reproduced or distributed by any means, in any way or form, either in whole, or in part, in marketing materials, as part of public relations events, in news bulletins, in commercial materials or reports without prior written consent from, and reference to, ACRA. Any use of Information in violation of these requirements or the law is prohibited.

ACRA credit ratings reflect ACRA's opinion about the ability of a rated entity to meet its financial obligations or about the credit risk of individual financial obligations and instruments of a rated entity at the time of publication of the relevant Information.

Non-credit ratings reflect ACRA's opinion about certain non-credit risks assumed by interested parties interacting with a rated entity.

The assigned credit and non-credit ratings reflect all material information pertaining to a rated entity and known by ACRA (including the information received from third parties), the quality and reliability of which ACRA considers appropriate. ACRA shall not be responsible for the accuracy of information provided by clients or relevant third parties. ACRA does not audit or otherwise verify the provided data and shall not be held responsible for their accuracy and completeness. ACRA conducts rating analysis of information provided by customers using its own methodologies, with the texts thereof available on ACRA's website – www.acra-ratings.com/criteria.

The only source that reflects the latest Information, including the one about credit and non-credit ratings assigned by ACRA, is ACRA's official website – www.acra-ratings.com. Information is provided on an "as is" basis.

Information shall be considered by users exclusively as ACRA's statement of opinion and must not be regarded as advice, recommendation or suggestion to buy, hold or sell securities or other financial instruments of any kind, nor shall it be viewed as an offer or advertisement.

Neither ACRA, nor its employees and persons affiliated with ACRA (further referred to as the ACRA Parties) provide any direct or implied guarantee expressed in any form or by any means regarding the accuracy, timeliness, completeness or applicability of Information for making investment and other decisions. ACRA does not act as a fiduciary, auditor, investment or financial advisor. Information must be regarded solely as one of the factors affecting an investment decision or any other business decision made by any person who uses ACRA's information. It is essential that each of such persons conduct their own research and evaluation of a financial market participant, as well as an issuer and its debt obligations that may be regarded as an object of purchase, sale or possession. Users of Information shall make decisions on their own, involving their own independent advisors, if they deem it necessary.

ACRA Parties shall not be responsible for any action taken by users based on Information provided by ACRA. ACRA Parties shall under no circumstances be responsible for any direct, indirect or consequential damages or losses resulting from interpretations, conclusions, recommendations and other actions taken by third parties and directly or indirectly connected with such information.

Information provided by ACRA is valid only as of the date of preparation and publication of materials and may be amended by ACRA in the future. ACRA shall not be obliged to update, modify or supplement Information or inform anyone about such actions, unless the latter was recorded separately in a written agreement or is required by legislation of the Russian Federation.

ACRA does not provide advisory services. ACRA may provide additional services, if this does not create a conflict of interest with rating activities.

ACRA and its employees take all reasonable measures to protect all confidential and/or material non-public information in their possession from fraud, theft, unlawful use or inadvertent disclosure. ACRA provides protection of confidential information obtained in the course of its business activities as required by legislation of the Russian Federation.