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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-year 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-year 2020, ISBank's Tier 1 capital adequacy ratio was 41.94% (48.94% at end-year 2019). The Bank's total capital stood at RUB 7.0 bln and the return on equity (ROE) ratio stood at 5.9%. The Bank's profitability was supported by high operating efficiency, as its cost to income (CTI) ratio amounted to 52.72%. 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 4.5 bln, which amounted to 64% 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 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.

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-year 2020. Current and settlement accounts made up 85.4% of the total liabilities and correspondent accounts stood at 14.4%. 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-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: 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 under 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 outstanding unallocated shares which previously belonged to now-departed member-states — Uzbekistan and Ukraine.

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.

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

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