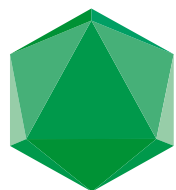
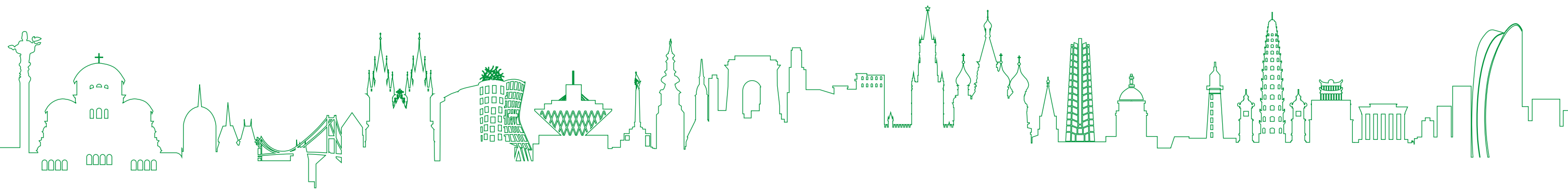


INTERNATIONAL  
INVESTMENT  
BANK

IIB.INT

OPERATIONAL  
REPORT  
2017





**INTERNATIONAL  
INVESTMENT  
BANK**

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## 2017 – A YEAR OF GREAT ACHIEVEMENTS AND STRONG GROWTH



Dear colleagues, partners and friends,

I am pleased to bring to your attention the public Operational Report of the International Investment Bank for 2017.

Last year was very important as it marked the successful completion of the strategic cycle of IIB relaunch that we implemented from 2012 to 2017 and it became a starting point for a new round of our development.

I have every reason to be proud of our team which have reached and for some key indicators have exceeded the ambitious targets set by the shareholder countries. I would like to emphasise that during the first five-year strategic cycle, which fell on quite a rough period in global economy and geopolitics, the Bank managed to increase its capital, Hungary renewed its shareholder status, a balanced loan portfolio covering all 9 member states was developed, we resumed operations in Cuba after a long halt and launched a trade finance program. The Bank took a rightful and important place among international development financial institutions. Therefore, we provided all conditions necessary to embark on a new strategic cycle of the Bank's operations.

That is why I consider the preparation and adoption of the new Development Strategy of the International Investment Bank for 2018–2022 as one of the most important events of the reporting year. In essence, it is a five-year strategy of dynamic growth focused on a two-fold increase in assets (up to EUR 1,700 mln) and in the loan portfolio (up to EUR 1,200 mln), expansion of the Bank's shareholder base, entry to new markets and further product range extension. Certainly, our targets are quite ambitious, but the stable performance demonstrated by the Bank in 2017 assures us that these high targets are achievable and we will reach them.

In 2017, international rating agencies took a number of positive rating actions towards the Bank to make it a top-rated international financial institution headquartered in Russia. These favorable actions were mainly driven by the Bank's continuous support of its member states, stable liquidity situation, high capital adequacy, diversified sources of financing and treasury portfolio, as well as improved risk management system.

In 2017, the Bank showed an impressive growth on its key performance indicators. IIB's assets grew by 24% to reach EUR 1,096 mln and as of the end of 2017, its loan and documentary portfolio exceeded EUR 712 mln, i.e. almost 88% higher than the previous year. At the same time, the Bank's equity capital exceeded EUR 395 mln.

In 2017, the Bank successfully raised long-term borrowings at record low rates and diversified them by country, product, maturity and investor base. The total amount increased by 62% to reach EUR 667 mln.

It is important to note that in 2017, the IIB, in full compliance with its mission, took crucial steps to facilitate the development of the capital markets of its member states. Several projects received financing in national currencies (Romanian lei, Hungarian forints and Russian rubles) and the Bank became the issuer of the first ever euro denominated bond on the Romanian stock exchange.

In 2017, the Bank also focused on improving its corporate governance system and we can now state that IIB's key business processes are in line with best practices of international development banks.

We carry on developing our partner network and strengthening cooperation with other development institutions. The IIB both seeks to open up new business opportunities, such as joint project financing, and acts as an organiser of discussion platforms on topics important for the entire international community, such as IFRS 9 implementation, compliance issues in DFIs, and trade finance cooperation among banks.

As far as corporate social responsibility is concerned, the Bank has been offering targeted grants for environmental projects, in particular those focused on preservation of water resources.

On behalf of the Board of the International Investment Bank and on my own behalf I would like to thank members of the IIB's Council, the Bank's international team, our partners and clients for the successful cooperation, great trust and unwavering support that allowed the Bank to achieve impressive results in 2017. I am sure that our joint efforts will ensure efficient development and integration of the economies of our member states in the future and strengthen business relations among us!

Best regards,

Chairman of the Board  
of the International Investment Bank

Nikolay Kosov

# Introduction

**2017 MARKED THE COMPLETION OF THE FIRST FIVE-YEAR STRATEGIC CYCLE OF THE INTERNATIONAL INVESTMENT BANK SINCE ITS «RELAUNCH». DURING THAT PERIOD, THE BANK MANAGED TO CREATE FAVOURABLE CONDITIONS FOR A NEW STRATEGIC PERIOD, OBTAIN FOUR INVESTMENT GRADE RATINGS, DEMONSTRATE A STABLE FINANCIAL PERFORMANCE AND A STEADY POSITIVE GROWTH IN ITS CORE ACTIVITIES INCLUDING PROFITABILITY**

According to the consolidated financial statements of the IIB Group (International Investment Bank (hereinafter referred to as «the Bank» or «the IIB») and its subsidiary IIB Capital JSC) for 2017, the Group's assets grew by 24% to reach EUR 1,096 mln, i.e a three-fold increase over the implementation of the IIB Development Strategy for 2013–2017.

The increase in assets was mainly driven by the growth of the loan and documentary portfolio, which amounted to EUR 712,4 mln at the end of 2017 (almost 88% higher vs 2016) and included loans and documentary products in all 9 member states, which is in line with the targets of the optimistic scenario of the IIB Development Strategy for 2013–2017.

In the reporting year, the loan and documentary portfolio was complemented with several large international investment projects, and against the background of considerable growth of investment activity, the Group kept the level of non-performing loans significantly below the limits set by the Strategy for 2013–2017.

As of the end of 2017, long-term borrowings totaled EUR 667 mln (62% growth during the reporting period). During the strategic period of 2013–2017, the Group diversified its borrowings by country, product, maturity and investor base including placements on the markets of the member states and the leading EU markets.

In 2017, the Group's equity increased by EUR 5,5 mln and reached EUR 395,7 mln as of December 31, 2017. As of the end of 2017, net income amounted to EUR 1,0 mln.

# Key events

## Key events for the Group in 2017 include the following:

- Approval of the IIB Development Strategy for 2018–2022 and country strategies.
- An increase in Mongolia's share in the paid-in portion of the IIB's authorised capital.
- Granting the first ever IIB observer status to a sovereign state – the Republic of Belarus.
- Beginning of financing of two mini HPPs of Nord Hydro – Bely Porog construction in the Republic of Karelia (Russia) together with New Development Bank and Eurasian Development Bank, financing the international leasing programs of State Transport Leasing Company PJSC (Russia, the Czech Republic) as well as the construction of Slovenské elektrárne plants in Slovakia.
- The first placement of bonds denominated in euros on the Bucharest Stock Exchange.
- The first long-term borrowings in national currency on the Hungarian market (HUF).
- The first issue of Schuldscheindarlehen bonds (SSD) on the German market for 7 and 10 years.
- Establishment of the Central Europe Fund of Funds (CEFof), managed by the European Investment Fund, in cooperation with other partners.
- The Technical Assistance Fund created by the Slovak Ministry of Finance and the IIB approved its first project on advisory support to Mongolia's Financial Regulatory Commission in combating money laundering and terrorism financing.

## Development of partnerships

- In order to promote lending and investment activities in the member states, the Bank signed a multilateral Memorandum of Cooperation with the Chambers of Commerce and Industry of the member states.
- In 2017, the Bank organised an international conference IFRS 9 for Multilateral Development Banks dedicated to the improvement of global financial reporting practices and introduction of the new IFRS 9 standard, which representatives of leading international development banks took an active part in.
- As part of the business agenda of the 108th Council Meeting of the International Investment Bank (Bratislava, Slovakia), the Bank held the IIB Trade Finance Forum focused on searching for effective solutions to current trade finance problems, the conference «Compliance Challenges for Financial Development Institutions» dedicated to compliance practice in banking and a roundtable discussion on the activities performed by the Technical Assistance Fund established by the IIB and the Slovak Ministry of Finance.
- The Bank continued to develop partnerships with government entities and institutions in each of the member states. In the reporting year, the IIB worked on the diversification of its geographical footprint including attraction of new potential business partners.
- In February 2017, the Bank became an associate member of the National Committee for Economic Cooperation with Latin American Countries (CN CEPLA), the leading organization in Russia to develop trade and economic relations between Russian and Latin American economic entities.
- In March 2017, at the 10th meeting of the Russian-British MIFC Joint Liaison Group, Alexander Voloshin, Head of the MIFC Taskforce, Miles Celic, Chairman of the Board of TheCityUK, and Nikolay Kosov, Chairman of the IIB Board, signed a Memorandum of Understanding at the IIB Headquarters.

## Credit ratings

Key changes in the Bank's credit ratings over the reporting year:

<b>Moody's Investors Service</b>	<b>Baa1</b>	In May 2017, the agency changed the credit rating outlook on the Bank from stable to positive and affirmed the IIB's Baa1 issuer and debt ratings*.
<b>Standard and Poor's</b>	<b>BBB</b>	In June 2017, the agency affirmed the IIB's long-term rating at BBB stable*.
<b>Fitch Ratings</b>	<b>BBB</b>	In December 2017, the agency changed the credit rating outlook on the Bank from stable to positive and affirmed the IIB's BBB issuer and debt ratings.
<b>Dagong</b>	<b>A</b>	In early 2018, the agency changed the credit rating outlook on the Bank to positive and affirmed the IIB's A rating.

*\* In April 2018, given the Bank's performance in 2017, Moody's Investors Service and Standard and Poor's improved once again the International Investment Bank's long-term credit ratings to A3 stable and BBB+ stable respectively.*

## Corporate governance reform

As of the end of 2017, the reform of the Bank's corporate governance system was at the final stage: eight out of nine countries had completed the ratification procedures to join the Protocol Amending the Agreement Establishing the International Investment Bank and its Charter (in Slovakia the package of documents is at the final stage of ratification).

The Bank prepared the necessary infrastructure to switch to the new corporate governance structure – drafts of fundamental provisions on management bodies and a package of high-level regulatory documents governing the main business processes of the Bank.

The Bank also began to develop an IT platform to ensure efficiency of new management bodies.

**EUR 314,96 mln**

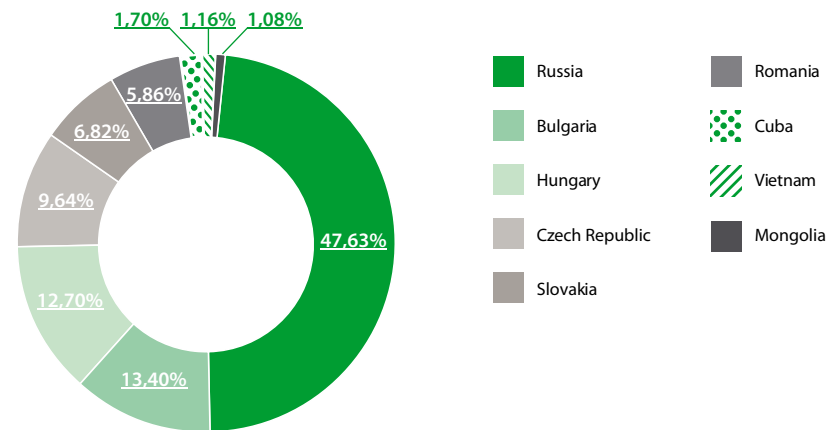
*the paid-in portion of the Bank's authorised capital as of the end of 2017*

\* The shares of the countries are given based on rounded-off values (here and on the graph below)

### Capitalisation program

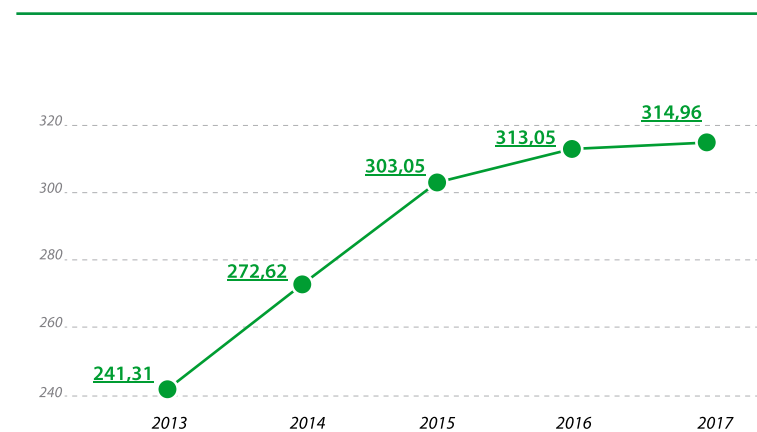
In the reporting period, Mongolia contributed more than EUR 1.9 mln and increased its share in the paid-in portion of the IIB's authorised capital to 1.077%. Thus, at the end of 2017, the paid-in portion of the Bank's authorised capital amounted to EUR 314,96 mln. As of the end of the reporting period, the total share of European countries in the paid-in capital amounted to 48.4%, Asian countries – 2.2%, Russia – 47.6%, Cuba – 1.7%.\*

The Government and the President of Romania approved the country's participation in the Bank's capitalisation in 2018 in the amount of EUR 4.0 mln.



Shares of the member states in the IIB's authorised capital as of December 31, 2017 (%)

Growth dynamics of the IIB's paid-in authorised capital (EUR mln)



### Strategic planning

The main result of the 107th IIB Council Meeting (June 26–27, Bucharest, Romania) was the unanimous approval of the new IIB Strategy for 2018–2022 by the member states. The Strategy was developed with advisory support of the World Bank Group and Ernst & Young. It sets the trajectory of the institution's development for the next five years as well as longer-term strategic aspirations.

In fundamentally different political and geo-economic conditions, the updated version of the IIB mission is defined as «**promote the integration of the economies of the Bank's member states in order to maintain conditions for balanced and inclusive growth and the competitiveness of the national economies based on well-established historical ties**».

For the next five years, the Strategy provides for a growth of the IIB's assets to EUR 1,700 mln and of the loan portfolio to EUR 1,200 mln, sets the target for the implementation of medium-sized projects as a «niche» development institution, the formation of a flexible value proposition in each member state (an important role in financial support of transactions, both between the IIB member states and third countries including financing of export and import operations and investments), and the achievement of greater financial stability and institutional maturity including through the transition to a three-tier governance system as well as the development and implementation of a new capitalisation program.

The Strategy defines the following high-potential areas: equity investments, participation in funds (technical assistance funds, in particular), and incremental expansion of the Bank's footprint and resource base, which includes attraction of new shareholders and participants by granting them special statuses.

In addition, the Bank and the delegations prepared and approved Country Strategies for all the IIB member states based on the provisions of the approved Strategy. The new strategic planning documents came into effect on January 1, 2018.

# Financial results

Based on the consolidated  
financial statements of the IIB  
Group for 2017

## Financial result of the IIB Group

As of the end of 2017, the operations of the IIB Group were profitable, and the key performance indicators showed positive dynamics. The activities of the Bank's subsidiary IIB Capital JSC were focused on the management of the complex of buildings owned by the Bank.

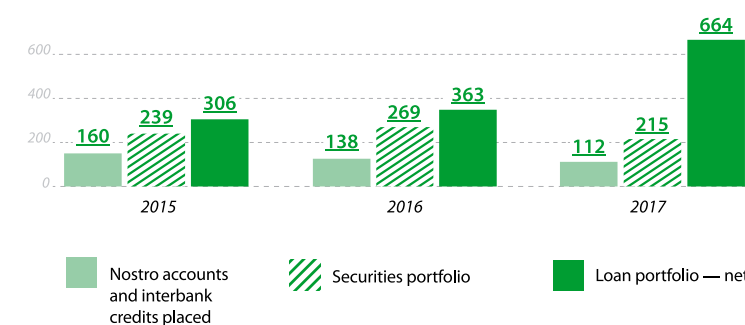
## Dynamics of key indicators

In 2017, the Group's balance sheet increased by EUR 214,6 mln or 24% to reach EUR 1,096 mln, liabilities increased by EUR 209,1 mln (up to EUR 700,4 mln) vs the beginning of the year. As of December 31, 2017, the Group's equity had increased by EUR 5,5 mln (or 1.4%) and reached EUR 395,7 mln.

As of December 31, 2017, the Group's net assets yielding interest income had increased by EUR 220,5 mln (or 29%) and reached EUR 991,5 mln, i.e. 91% of the balance sheet.

**EUR 1,096<sub>mln</sub>**

*assets of the IIB Group  
as of the end of 2017*



Structure of assets  
yielding interest income  
(EUR mln)

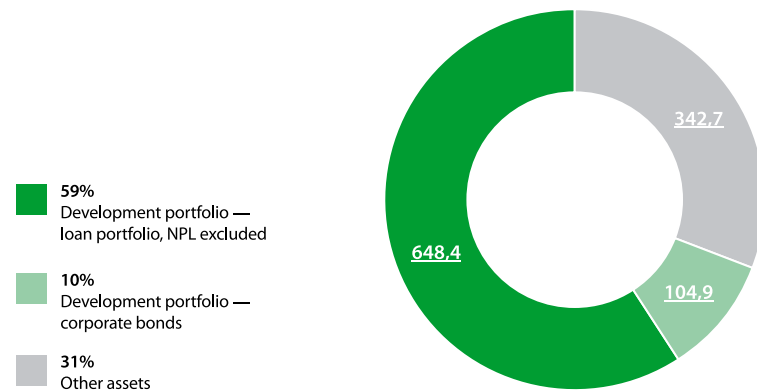


### IIB's development portfolio

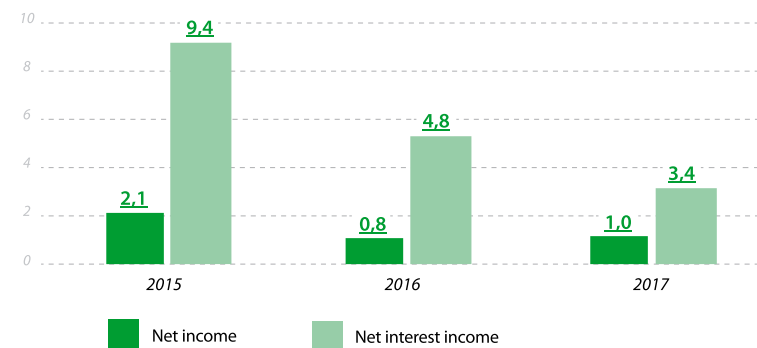
Since 2016, the IIB has been assessing its contribution to the economic development of its member states by taking into account the Development Portfolio.

Investment focus on the fulfilment of the Bank's mission is the main criterion for assigning assets to this portfolio.

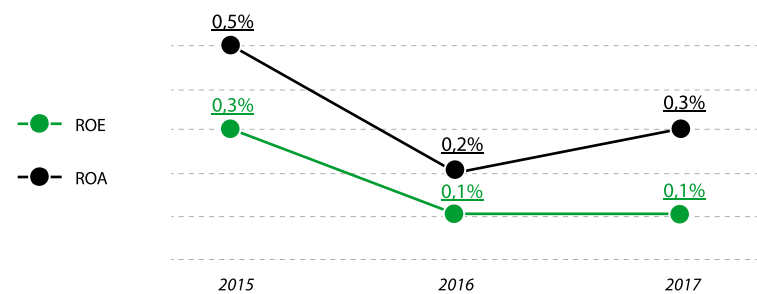
As of the end of 2017, the Development Portfolio totaled EUR 753,3 mln (69% of total assets).



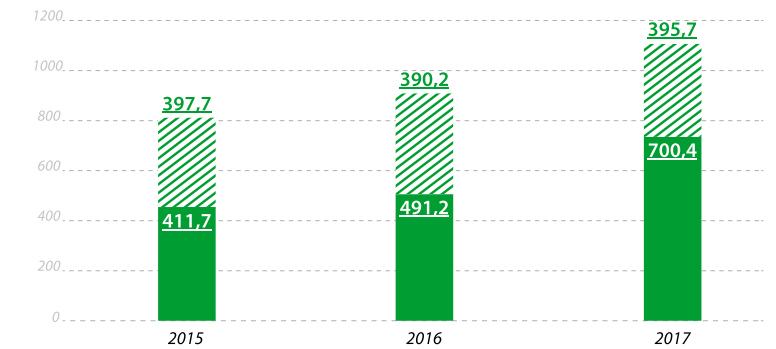
The share of the development portfolio assets in total assets (EUR mln)



Net income and net interest income (EUR mln)



ROA and ROE



Structure of liabilities (EUR mln)

### Development of financial reporting processes

Due to the adoption of a new accounting and reporting information system, the Bank managed to significantly shorten the time for preparation of annual audited statements (by 1 calendar month), which made the IIB a leading international institution as regards the speed of financial statement issuance.

The IIB successfully completed the transition to the new international financial reporting standard IFRS 9 (mandatory starting from 2018): approved the Methodology for creating provisions for the expected credit losses in accordance with IFRS 9, developed and implemented technical tools for the provisioning of financial instruments in the Bank's ABS. As of the end of 2017, the IIB had also become one of the leading financial development institutions as regards the level of preparation and established methodological processes within the transition to IFRS 9.

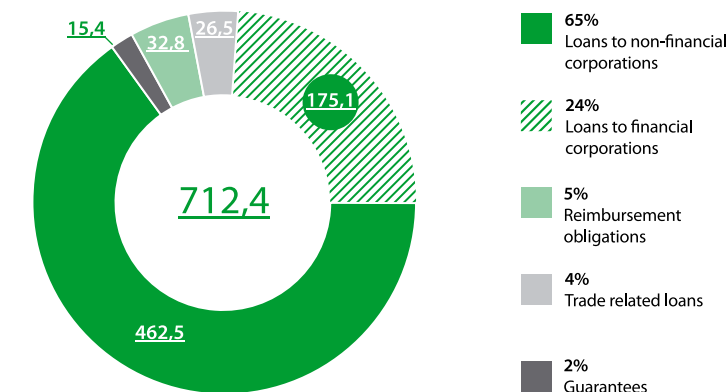
# Lending & investment activities

## Loan and documentary portfolio

By the end of 2017, the Group's loan and documentary portfolio had grown by 88.3% or EUR 334,1 mln and reached EUR 712,4 mln (loan portfolio – EUR 664,1 mln, documentary portfolio – EUR 48,2 mln). Loans to non-financial corporations (65%) make up the major share of the loan and documentary portfolio.

**EUR 712,4 mln**

*the Bank's loan and documentary portfolio as of the end of 2017*



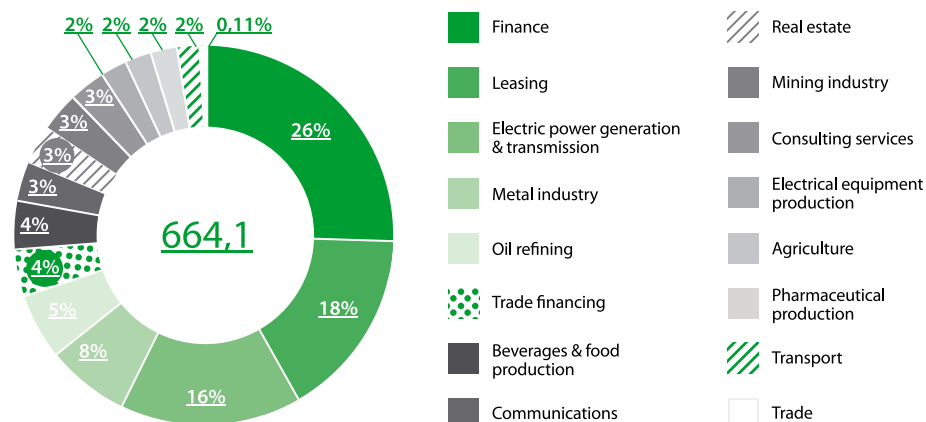
*Product diversification of the loan and documentary portfolio as of December 31, 2017 (EUR mln)*

**EUR 664,1 mln**  
the Bank's loan portfolio as of the end of 2017

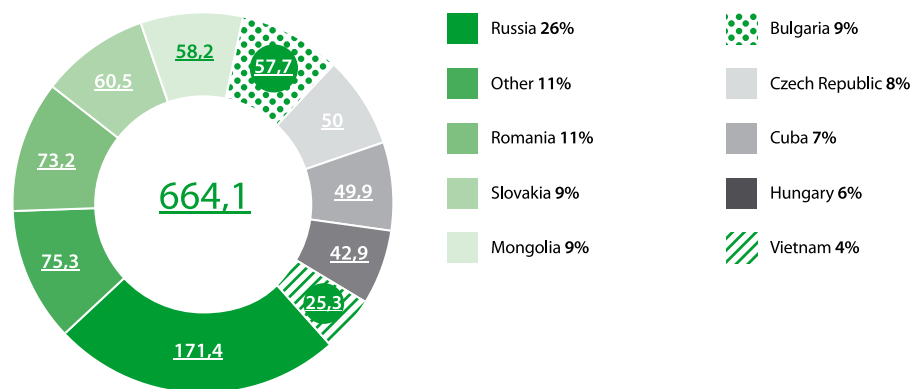
### Loan portfolio

Over the reporting year, the net loan portfolio increased by 82.7% or EUR 300,7 mln and reached EUR 664,1 mln; it includes loans in all nine member states of the Bank. The major share of the loan portfolio falls on EU (42%) and Russia (26%). Projects in the financial sector (26%), leasing (18%), power generation and distribution (16%) make up the largest share of the portfolio.

Net loan portfolio structure by industry as of December 31, 2017 (EUR mln)



Net loan portfolio structure by country as of December 31, 2017 (EUR mln)

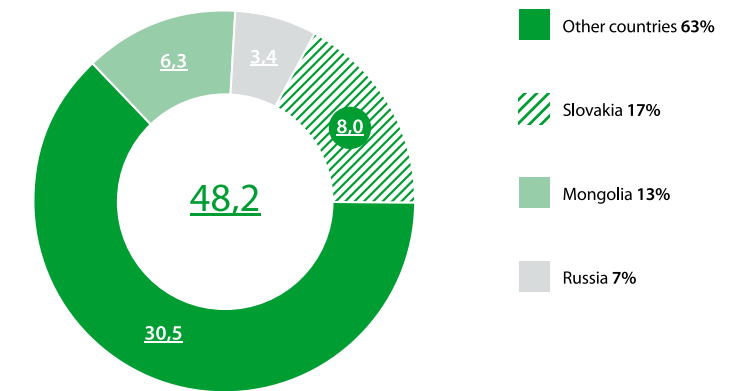


### Documentary portfolio

Over the reporting period, the Group's documentary portfolio increased more than threefold and amounted to EUR 48,2 mln as of the year-end, of which EUR 32,8 mln is reimbursable obligations and EUR 15,4 mln – guarantees. The major share of the portfolio falls on countries that are not members of the IIB and is aimed at supporting the export and import operations of the member states under the Trade Finance Support Program.

**EUR 48,2 mln**  
the Bank's documentary portfolio as of the end of 2017

Country diversification of the documentary portfolio (EUR mln)

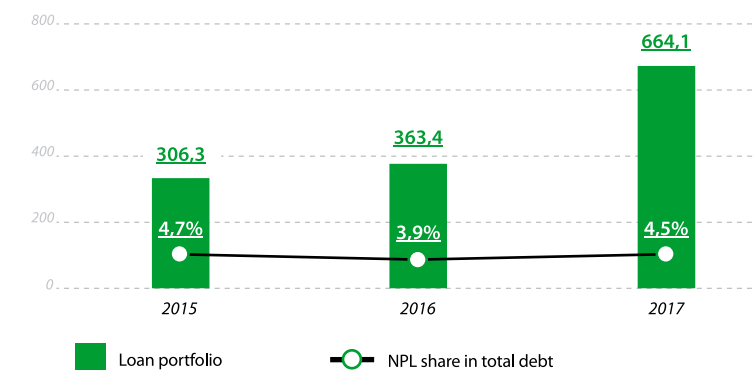


### High quality of the Bank's loan portfolio

Despite the significant growth of the loan portfolio, the Bank managed to maintain a low NPL rate, which ensures the stable financial position of the IIB.

**4.5%**  
NPL to total debt ratio as of the end of 2017

Loan portfolio on the balance sheet (EUR mln) and NPL (%)



## Selected investment projects approved by the Board of the Bank in 2017:



### MOL (Hungary)

Loan amount: EUR 20 mln

The IIB provided financing in the form of Schuldscheindarlehen (SSD) to MOL Hungarian Oil and Gas Public Limited Company, the largest Hungarian oil and gas company.



### Slovenské elektrárne (Slovakia)

Loan amount: EUR 60 mln (at the beginning of 2018, the Bank approved a limit increase up to EUR 90 mln)

The Bank provided financing to Slovenské elektrárne a.s., the largest Slovak energy company focused on heat and electricity production and sale. The company will use the funds to finance general corporate purposes.



### MEP (Romania)

IIB's share: RON 91.25 mln (EUR 20.28 mln)

Total loan amount: RON 1.4 bln

For the first time, the Bank provided RON financing as part of a syndicated loan arranged by Citibank for MEP Retail Investments S.R.L. (Romania) to finance costs associated with the acquisition of the Romanian Profi food retail chain represented in more than 280 cities and towns of Romania.



### PetroVietnam (Vietnam)

Loan amount: USD 100 mln (EUR 83.7 mln)

The IIB approved the largest infrastructure project of the 2013–2017 strategic period on the construction of the Long Phu 1 thermal power plant in Vietnam jointly with VEB and Vietnamese company PetroVietnam. The funds will be used to purchase and supply equipment and perform related works and services. Equipment will be supplied by three IIB member states: Russia, the Czech Republic and Vietnam.



### Oyu Tolgoi (Mongolia)

IIB's share: USD 30 mln (EUR 25.1 mln)

Total loan amount: USD 4.3 bln

The Bank participates in a syndicated loan arranged by IFC to finance a strategic project that is critical for the development of the Mongolian economy, i.e. construction of mines and infrastructure for underground ore extraction at Oyu Tolgoi, the world's largest gold-copper deposit.



### Invitel (Hungary)

IIB's share: HUF 7.15 bln (EUR 23 mln)

Total loan amount: HUF 40.3 bln

The Bank signed an agreement to participate in a syndicated loan arranged by UniCredit S.p.A to finance the acquisition of telecom group Invitel (Hungary) by Ilford Holding Kft.

## Trade finance

As of the end of 2017, the total amount of transactions issued under the IIB Trade Finance Support Programme (TFSP) had exceeded EUR 100 mln, of which more than EUR 75 mln was due to the operations carried out in 2017. In reported period, the IIB, as a multilateral development institution, started implementing training initiatives under TFSP. In September 2017, it held a workshop for Mongolian and Vietnamese banks. The Association of Development Financing Institutions of Asia and the Pacific (ADFIAP) recognised the Trade Finance Support Programme of the International Investment Bank as the best one in 2017.

The Bank continued expanding the toolkit and footprint of the Trade Finance Support Program including:

- For the first time, the Bank supported a Bulgarian exporter under trade finance operations by issuing an irrevocable reimbursement obligation on behalf of Alfa-Bank CJSC (Belarus) to supply equipment for a milk and dairy production line from Bulgaria to Belarus.
- The deal with VTB Bank (Belarus) worth RUB 260 mln became the first direct bank guarantee under the Trade Finance Support Programme.
- The deals with the Trade and Development Bank of Mongolia worth EUR 630,000 became the first standby letters of credit issued under the Trade Finance Support Programme.
- The first counter-guarantee of the IIB, issued on behalf of Eximbank of Russia JSC, ensured the issuance of a performance guarantee related to the supply of pipeline materials by a Russian exporter.
- For the first time, the IIB advised in SWIFT two bank guarantees issued by BANCA TRANSILVANIA S.A. (Romania).

## European Regional Office (ERO)

In the reporting year, the IIB's European Regional Office initiated a number of important deals worth over EUR 156 mln. Country diversification of the initiated deals: Slovakia (43%), Hungary (29%) and Romania (28%).

In 2017, the ERO representatives were actively involved in international events focused on developing the Bank's operations and facilitating its further promotion, as well as participated in fund raising for the Bank.

Over EUR **75** mln

the total value of the transactions carried out under the Trade Finance Support Programme in 2017

# Long-term borrowings

AS OF THE END OF 2017, THE BANK'S LONG-TERM BORROWINGS TOTALED EUR 667 MLN INCLUDING EUR 509,2 MLN DUE TO ISSUES OF BONDS AND EUR 157,6 MLN (INCLUDING THE REPO TRANSACTION) DUE TO LONG-TERM BILATERAL FINANCING

## Long-term securities issue

As of the end of 2017, there were 5 issues of RUB bonds in circulation of a total of RUB 24 bln including bonds that were bought back in part by the Bank from investors and are available for secondary placement, one bond issue in Slovakia of EUR 30 mln and three bond issues in Romania in total equivalent of about EUR 215 mln.

**EUR 667 mln**  
total long-term  
borrowings of the Bank  
as of the end of 2017

## Romania

In late September 2017, the Bank placed two bond tranches of EUR 60 mln and RON 300 mln (equivalent of EUR 64,3 mln) on the Bucharest Stock Exchange. This bond issue was the first ever placement of debt instruments denominated in EUR on the Romanian stock market. Investors from 6 EU countries (Romania, the Czech Republic, Hungary, Slovakia, Germany and Austria) showed a general interest in IIB's bonds. The total share of non-Romanian residents among the investors of both tranches amounted to 36%.

Three years running, the Romanian Stockbrokers' Association recognises IIB's achievements in contributing to the development of the Romanian stock market. On November 23, 2017, the Bank was given the award «For Outstanding Achievement in Developing the Romanian Corporate Bond Market».

## Russia

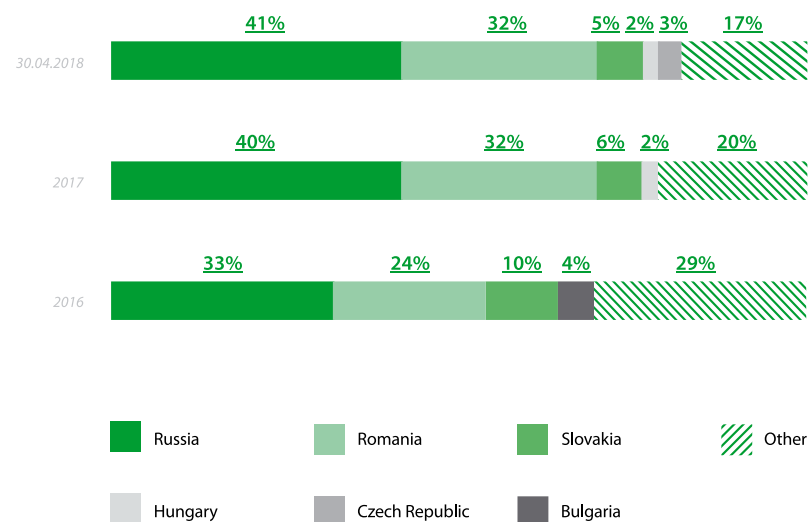
In the reporting year, the Bank raised long-term funds by placing RUB bonds, including secondary placements, of a total of about EUR 275 mln.

In June 2017, the Bank placed the first issue of exchange-traded bonds on the Moscow Stock Exchange under the Exchange-Traded Bond Program registered in 2016. The issue totaled RUB 10 bln. As of the end of 2017, it was the IIB's largest bond issue.

## Structured and bilateral financing

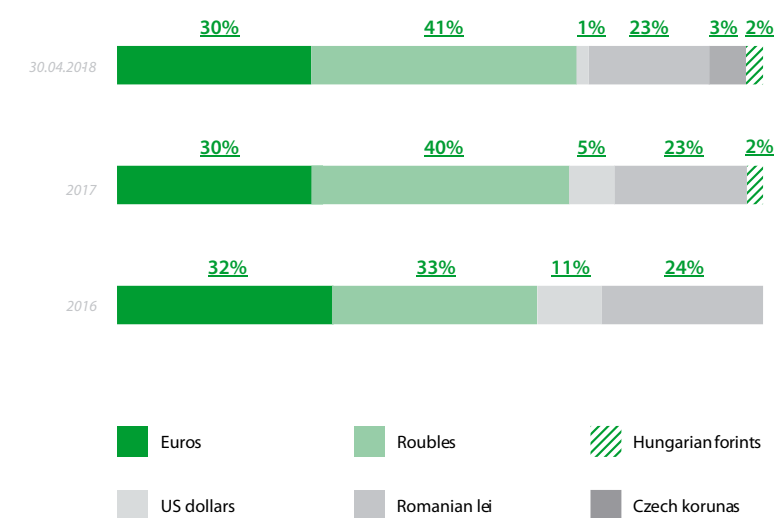
- In 2017, the IIB made the first issue of Schuldscheindarlehen (SSD) of EUR 23 mln in total, expanding its investor base and product range.
- In the reporting year, the Bank raised funds in Hungarian forints (HUF) of 4 bln (equivalent of EUR 13 mln) for the first time in the IIB's new history.
- In August, the Bank signed credit documentation with New Development Bank, which is to offer tied financing for the project on the construction of two hydroelectric power plants in the Republic of Karelia (Russia). The total project volume is USD 100 mln.

Funding structure is based on issue face value



Funding structure by country

Funding structure is based on issue face value



Funding structure by currency

# Treasury operations

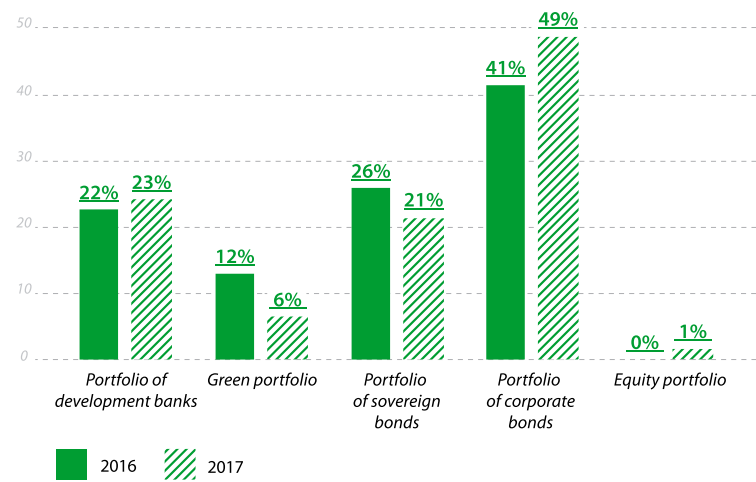
AS OF THE END OF 2017, THE ASSETS UNDER THE TREASURY'S MANAGEMENT TOTALED EUR 334.8 MLN AND THE SECURITIES PORTFOLIO – EUR 215,4 MLN

In 2017, the IIB's Treasury focused on the following areas:

- Adapt the assets under management to the economic changes, inflation expectations and falling prices of fixed income instruments.
- Maintain the high quality of the assets under management, in particular the assets with A-AAA rating.
- Continue geographical diversification, in particular, transactions in the markets of China, Kazakhstan, Belarus and Georgia.
- Manage risk level.
- Ensure stable P&L impact.

One of the measures focused on maintaining high quality of assets is the creation of special treasury portfolios, such as:

- Green portfolio of securities. The portfolio is aimed at targeted investment in the development of green technology focused on resource saving and energy efficiency, at developing alternative sources of energy and other socially important areas.
- Portfolio of development banks. The portfolio includes the securities of issuers with high investment rating and an organisational structure similar to that of the IIB and it is a combination of stable profitability and highest investment reliability.

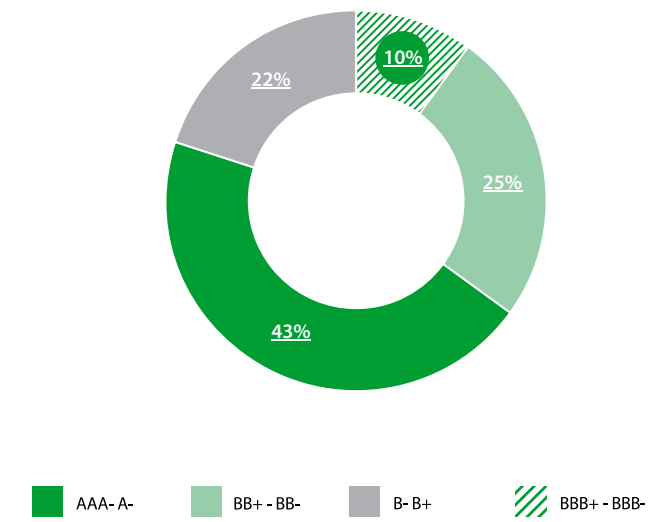


Special treasury portfolios in the securities portfolio

In the reporting year:

- The Bank participated in the new placement of the international sovereign bonds of Mongolia nominated in USD. The securities issue was of special importance for the Government of Mongolia as it ensured the required government refinancing of the debt burden of the Development Bank of Mongolia, which is a vital institution for the Mongolian banking sector.
- The IIB and the Black Sea Trade and Development Bank acted as an anchor investor in the new bond issue of Energo-Pro AS, the leading energy company of the Czech Republic.
- As part of building the IIB's development portfolio, the Bank also participated in the placements of high-quality issuers with investment rating, such as NEPI Rockcastle Plc, the leading Romanian commercial property and development company, Gazprom OJSC, Russian Railways OJSC, Norilsk Nickel MMC (Russia), etc.

Securities portfolio by issuer rating



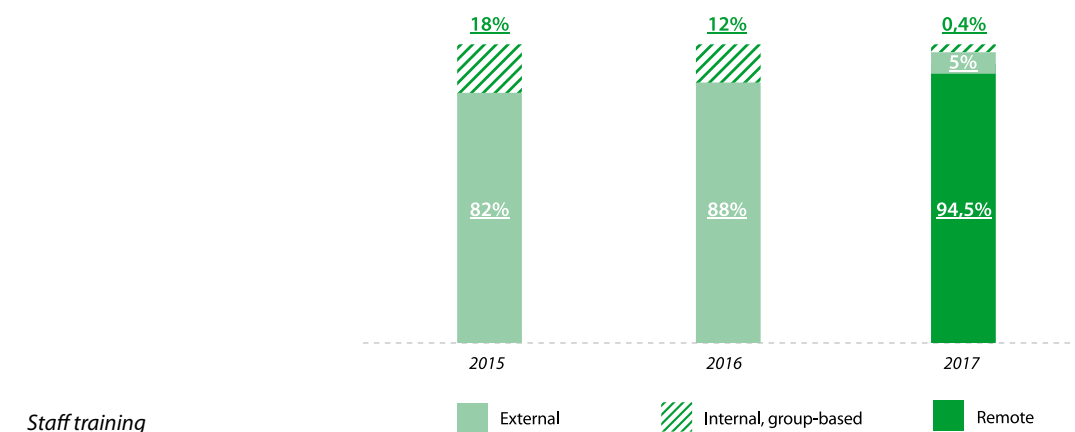


# Human resources

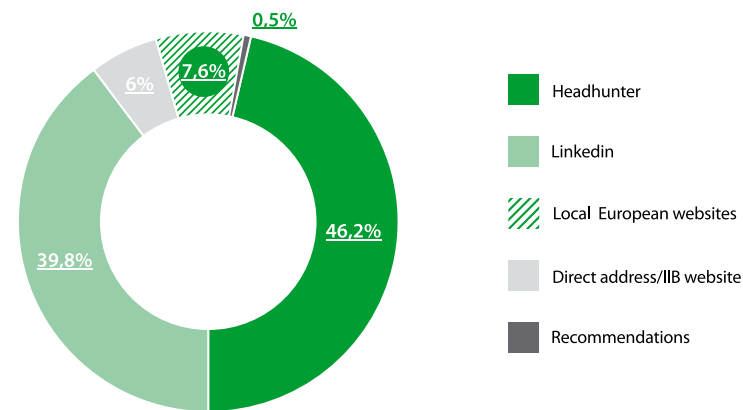
TALENT MANAGEMENT, TRAINING AND DEVELOPMENT SYSTEMS WERE AMONG THE KEY AREAS OF THE HR ACTIVITIES IN 2017. THE BANK STARTED GRADUAL TRANSITION TO A SELF-LEARNING AND SELF-DEVELOPING ORGANISATION

Early in the year, the IIB launched remote training. In order to ensure an additional learning resource the Bank created an electronic library of knowledge on its internal portal to provide a collection of information materials added by the IIB's employees. The Bank also arranged working sessions and business breakfasts for executives and other staff. About 81% of the employees underwent (external, internal or remote) training.

The Bank applied proven international tools to carry out individual assessment of the personal characteristics, work behavior and motivation drivers of each employee to identify new methods of professional development and potential fulfilment.



Information sources  
of recruitment

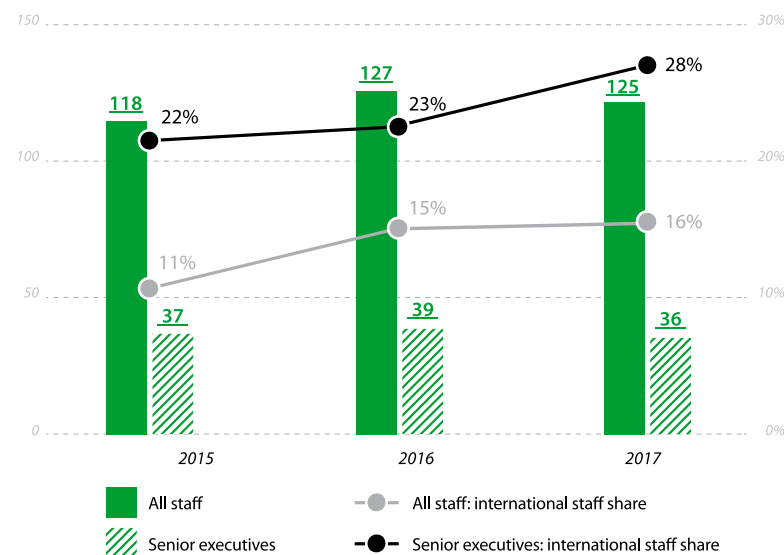


In the reporting period, the Bank continued recruiting highly qualified staff from the global labour market and arranging long-term internship in its BUs for the talented financial and economic students of the leading universities and colleges.

As of the end of 2017, the international staff made up 16% of the total headcount of the Bank, and the executive international staff (the Board, department directors and their deputies) totaled 27.8% (see the chart below).

In the reporting period, the Bank also worked on a new retirement plan and studied the market of modern HR information systems.

Share of international staff



# Information technology

IN THE REPORTING PERIOD, THE BANK COMPLETED THE PROJECT ON MANAGEMENT REPORTING AUTOMATION BASED ON THE CORPORATE DATA WAREHOUSE TO SIGNIFICANTLY SHORTEN THE PREPARATION TIME AND IMPROVE THE OVERALL PERFORMANCE. THE PROJECT DELIVERABLES WERE REPORTED IN THE BANKING REVIEW JOURNAL IN OCTOBER 2017

In 2017, the Bank also completed the project on the implementation of Finastra Fusion Risk, an automated risk, asset and liability management system. The Fusion Risk implementation allowed the Bank to create a single source of initial data for expert departments, improve calculation accuracy and transparency, eliminate operational risks and the impact of the human factor on calculation results.

# Compliance & internal control

DURING THE REPORTING PERIOD, THE BANK ASSESSED, CONTROLLED AND MITIGATED RISKS RELATED TO MONEY LAUNDERING MADE THROUGH CRIME, FRAUD AND CORRUPTION. THE IIB'S RESPECTIVE LEGAL FRAMEWORK WAS UPDATED BASED ON THE RENEWED STANDARDS OF INTERNATIONAL COMPLIANCE ORGANISATIONS

The Bank analysed compliance risks related to ongoing projects. It carried out assessment of the sanction-related risks of certain jurisdictions and projects and the impact of tightening of the international requirements for information disclosure and taxation.

Important results were achieved in international activities, where the Bank managed to make a quantum leap.

# Corporate social responsibility

IN 2017, THE GROUP CONTINUED DEVELOPING ITS OWN COMPETENCES IN CORPORATE SOCIAL RESPONSIBILITY AND PROMOTING PRINCIPLES OF SUSTAINABLE DEVELOPMENT (HEREINAFTER "SD") WITHIN ITS CORE BUSINESS

## Responsible environmental practice

In the reporting year, the Bank introduced into its loan and documentary portfolio important green projects, which could create a positive environmental impact, according to the Bank's assessment methodology for environmental and social impact. The projects included a loan facility for Nord Hydro – Bely Porog (Russia) to build small HPPs in Karelia based on RES.

The Bank also started encouraging certain corporate borrowers to adopt SD best practices and standards. Thus, the loan agreement with the Czech Republic's Pilsen Toll s.r.o. included a requirement for corporate environmental audit. As a result, the company introduced an environmental management system in compliance with ISO 14001.

## Green office concept adoption

In the reporting year, the Bank carried out the adoption of green office principles. With this end in view, the IIB performed the following activities:

- introduced accounting of relative electricity, heat and water consumption;
- launched the transition to energy-efficient lighting appliances and energy consumption regulation based on the established operational mode;
- purchased dual flush toilets to ensure water saving.

The above-mentioned measures helped to reduce energy consumption by 3.7% in the reporting year vs. 2016. The heat consumption in the IIB's complex of buildings totaled 8,873.3 Gcal, i.e. 9.8% higher vs. 2016, the water consumption (cold water supply) – 38,535 m<sup>3</sup>, i.e. 5.8% higher vs. 2016. The higher heat and water consumption is mainly accounted for by renting out free space in the Bank's complex of buildings and the respective increase in the number of consumers.

In the reporting year, the Bank purchased 1,030 packs of paper, i.e. 7.8% more vs. 2016. The IIB seeks to reduce paper consumption. In particular, it replaced printers with modern equipment that allows double-sided printing. More extensive use of mobile workplaces and devices and electronic document management will facilitate savings.

In the reporting year, 2,600 kg of archive documents and waste paper was given for disposal and recycling. The Bank signed a contract with a printing office that uses recycled paper. 1,000 kg of outdated office equipment and 2,200 fluorescent lamps were given for special disposal. In December, two containers for collection of waste batteries and accumulators were installed in the Bank's Headquarters.

## Sponsorship and volunteering

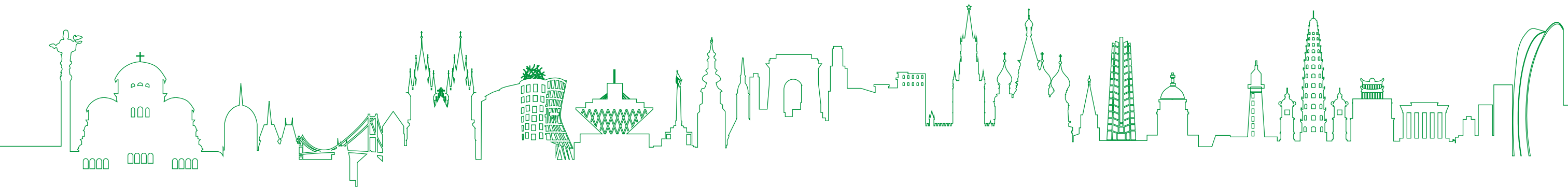
The Bank continued awarding grants to implement important environmental programs in the member states:

- In June, at the 107th Council meeting, the IIB awarded a EUR 30,000 grant to Milvus Group Association, a Romanian non-governmental environmental organisation, to support its project «Environmental Education and Awareness Raising in Protected Areas».
- In December, at the 108th Council meeting, the IIB awarded a EUR 50,000 grant to support the project «Restoration of the Natural River Ecosystems in Northern Slovakia» within the Danube-Carpathian Program of the World Wildlife Fund (WWF-DCP).

In November 2017, «Peatland Restoration in Russia», a project of Wetlands International, a non-governmental organisation, supported by the Bank earlier, was awarded by the Secretariat of the UN Framework Convention on Climate Change.

As far as volunteering is concerned, in September, the Bank's employees participated in the large-scale campaign «Plant a Forest» arranged by Greenpeace Russia and held in Solnechnogorsk District of Moscow Region.

In the reporting year, the Bank's sponsorship project on Przewalski's horse conservation efforts in Mongolia was successfully completed – 30 horses were released into the wild in Western Mongolia.



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