

INTERNATIONAL
INVESTMENT
BANK

Annual Report of International Investment Bank 2019

IIB.INT



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Dear colleagues, clients, and partners of International Investment Bank,

I am glad to present you the report on the Bank's performance for 2019. I know that the circle of interested and attentive readers of our annual document is constantly growing. That makes sense because the scale of our activities is steadily expanding, the Bank invariably demonstrates positive dynamics of all key indicators, and the result of our work produces increasingly noticeable impact on the economies of the member states. IIB has been consistently strengthening its position within the international financial community.

I firmly believe that this particular report will break all previous records in terms of the content studied by experts and analysts. It is 2019 after all that will forever go down in the history of IIB, its shareholder countries, and in the chronicles of the entire international community of development institutions due to unprecedentedness and importance of the events that have taken place and that will determine the scope of our long-term strategy and shape a new modern image of the Bank.

In mid-2019 in pursuance of the decision of its shareholders IIB moved headquarters from Moscow to Budapest becoming the first and only multilateral development bank in Central and Eastern Europe. This event served as a continuation of our policy towards comprehensive europeization, which is fully consistent with both interests of five European Union member states and aspirations of four sovereign shareholders from other strategic geographies. Not much time has passed since the relocation, but even in this short period it became obvious that the Bank's active work fruitfully contributes to the formation of a new significant international financial centre of the region. It is important to note that the Bank carried out an entire range of large-scale and objectively complex relocation measures accurately and promptly, in strict accordance with the approved schedule, without reducing the high pace of its daily activities for even a moment! The best confirmation of this is the result we have achieved.

In 2019 yet again, as in all recent years, IIB demonstrated high efficiency in implementation of the Strategy agreed by the member states, including growth of assets and loan portfolio, improvement in quality of the treasury portfolio, increase in the capacity and level of funding diversification with a steady decline in its cost, improvement of the risk management system and compliance activities.

At the end of the reporting year the Bank showed a record profit of EUR 5,685 million. Profitability was ensured by the net earnings and commission income and was the direct result of quality improvement of the loan portfolio and increased efficiency of the expenses control.

The Bank's assets increased by 14% to EUR 1.359 billion, the main driver being the impressive (more than 17% per year!) growth of the loan and documentary portfolio, which value for the first time in recent history of IIB exceeded the landmark of EUR 1 billion in December 2019. The Bank actively carried out its lending and investment activities in all of its 9 countries, and the share of loans issued in the interest of its European member states exceeded 53%. We consistently focus on implementation of projects that contribute to maintaining economic stability of the shareholders.

As a multilateral development institution with the unique shareholder structure (IIB is the bank of 9 countries and 3 continents) International Investment Bank consistently supports projects with the integration component implemented in interests of two or more of its member states. Such initiatives constituted more than 32% of the portfolio in the past year.

The relocation to Europe, active integration of the Bank into the international financial community, growth of recognition, successful brand positioning, and development of the partner network contributed to a certain increase in the number of "partner projects" in our portfolio implemented in cooperation with multilateral and national development institutions, and with commercial banks as well. The share of these projects made up 42% of the portfolio in 2019.

In the reporting year IIB continued its efforts to consistently improve the risk management system and compliance activities. Meanwhile in the background this allowed a significant growth of the loan portfolio to reduce the share of non-performing loans to a record low of 1.6%, which is a very remarkable achievement for our reference group.

Another important achievement of 2019 was the entry of IIB into the elite club of multilateral development institutions with an average rating of an A level from the leading international rating agencies, which had undertaken positive rating actions in relation to the Bank three times. A significant improvement in credit rating, along with the acquisition of European address, allowed the Bank to increase funding volumes, reduce costs of attracting resources, and show funding diversification by geography, instruments, currencies, and tenor. It should also be noted that comprehensive development of capital markets of its member countries is an important part of IIB's mission. In 2019 the Bank successfully completed four bond issues: two in Hungary, one in Romania, and one in the Czech Republic with the total value

over EUR 280 million, which accounted for about 30% of the Bank's total long-term funding since 2014. All issues were placed at record low rates. Today our bonds are successfully traded on stock exchanges of Bratislava, Budapest, Bucharest, Vienna, Moscow, and Prague. The relocation to Europe has also allowed IIB to expand its investor base. The Bank's investors are more than 170 banks, pension funds, and insurance companies from 13 jurisdictions, including Austria, Bulgaria, the United Kingdom, Hungary, Germany, the Netherlands, Moldova, the Russian Federation, Romania, Slovakia, Croatia, the Czech Republic, and Switzerland.

In 2019 the Bank's Treasury Department's priority was to maintain the required volume of liquid treasury along with systematic quality improvement. During the reporting period the share of instruments with credit ratings of AAA–A- in the Bank's treasury portfolio reached the record level of 70% compared to 57% at the end of 2018, and the share of "green" instruments almost quadrupled from 15% to 57%.

Last year IIB member countries opened a new round of capitalization of the institution. At the end of 2019 the size of paid-in capital reached EUR 339.6 million with the increase of 4% thanks to contributions from Romania and Hungary. Since the beginning of 2020 Hungary and the Russian Federation have made contributions in accordance with the agreed schedule, which resulted in the paid-in capital of IIB currently reaching EUR 375.75 million. Shareholders' support contributes to further strengthening of financial stability of the institution and opens up increasing opportunities to expand the scale of our lending and investment activity in all member states.

Based on the results of its work in 2019 IIB was recognized as the Fastest Growing Financial Institution in the Central and Eastern European Region Contributing to Sustainable Development by the international edition of Global Banking and Finance Review.

We are releasing the Bank's 2019 report at times when economies around the world are still in highly turbulent conditions as the pandemic spreads. I consider it important to note that in this crisis IIB has once again demonstrated its stability and constant ability to face any challenges.

It is also symbolic that on the eve of the 50th anniversary since foundation of International Investment Bank, we have reached an agreement on the acquisition of a new permanent home for the Bank – the legendary Lánchíd Palota, located at Fő utca 1, Budapest, Hungary. Fő utca means "main street". On behalf of the whole international team of the Bank I would like to thank our partners, clients, and investors for their support. I promise that we will continue to do everything in our power to ensure that IIB's role in the development of the economies of our member countries, both current and future, will become more noticeable, significant, and "main".

Yours faithfully,

**Chairperson of the Management Board
Nikolay Kosov**



Key Events

Key Figures

According to the consolidated financial statements of IIB as of the end of 2019 the Group's assets reached EUR 1,359 million (+ 14% compared to that of 2018, + 10% compared to the Strategy planned result for 2019).

The paid-in capital figure reached EUR 340 million. The gross volume of loan and documentary portfolio exceeded EUR 1 billion for the first time in the new history of IIB, demonstrating a record growth of 18% since the beginning of 2019. During the reported period IIB approved the provision of 25 loans, 4 guarantees, and 2 bond purchases for a total amount of EUR 565 million equivalent.

The Bank's total long-term borrowings amounted to EUR 850 million, including EUR 794 million in placed bonds and EUR 57 million in long-term bilateral financing. The Group continued to diversify its fundraising by countries, products, maturities, and investors through bond placements on the leading EU markets including those of the member states.

In 2019 IIB placed 4 bond issuances in Hungary, Romania, and the Czech Republic with total volume exceeding EUR 280 million equivalent which currently constitutes over 35% of the Bank's total long-term borrowings. Following debut HUF placements in 2019 IIB was named the Best Interna-

tional Issuer of the year by the Budapest Stock Exchange.

IIB continued the policy aimed at quality improvement and diversification of its treasury assets. The share of the highest credit quality assets (AAA–A- rating groups) reached 70% (+ 13% compared to that of 2018).

During the reported period the Bank significantly increased the share of investments in the Green Bond portfolio mainly in primary market, bringing it to 57% of the total treasury portfolio (3.8 times higher compared to that of 2018).

Credit Ratings

All credit rating agencies took positive rating actions on IIB in 2019 owing to the combination of improved treasury quality assets, decreasing funding costs, proven track record of prudent risk management system, low level of NPLs, and diversification of the loan portfolio. In November the Bank obtained its first rating from the Russian Analytical Credit Rating Agency (ACRA) at the highest AAA national level. The Bank's average credit rating reached an A in 2019.

Moody's	A3	Stable (April 2018)
Fitch	BBB+	Positive (September 2019)
S&P	A-	Stable (March 2019)
Dagong Europe	A-	Stable (September 2019)
ACRA International	A	Stable (November 2019)
ACRA National	AAA(RU)	Stable (November 2019)

Successfully completed relocation

International Investment Bank relocated its headquarters to Budapest in June 2019 to become the first and only multi-lateral development bank with headquarters in the region of Central and Eastern Europe. Despite large-scale relocation activities IIB maintained continuity of its day-to-day business operations and stayed on the pace of development. In some key performance indicators planned targets were even exceeded.

The unanimously approved by stakeholders relocation of the headquarters to Europe brought the Bank closer to its investors and key clients thus creating several benefits for IIB and its member states, namely: decreased cost of funding, new possibilities for assets and loan portfolio growth, further positive rating actions, new opportunities for attracting new stakeholders, enhancement of sustainable development activities.

Milestones

On February 5, 2019 IIB signed a host-country Agreement with the Government of Hungary regarding the headquarters of International Investment Bank in Hungary.

In June 2019 IIB successfully relocated the key staff to Budapest and has since then been fully operational from the temporary headquarters premises, legal address: H-1138 Budapest, Váci út, 188.

In September 2019 meetings of the Board of Directors and the Board of Governors of IIB took place in Budapest for the first time after the Bank's relocation to Europe.

In September 2019 a Deputy Chairperson of the Management Board representing Hungary joined the Bank.

In September 2019 Hungary contributed additional EUR 10 million to the Bank's paid-in capital.

On October 5, 2019 the Bank obtained a new European SWIFT code — IIBMHU22.

At the end of 2019 IIB achieved a principal agreement to purchase the historic Lánchíd Palota building (1011 Budapest, Fő u. 1) in the very heart of Budapest making it its permanent headquarters. The purchase was successfully completed in March 2020.

Key events of the year

In January 2019 an international publication Global Banking and Finance Review named IIB the *Fastest Growing Infrastructure Bank in Central Europe* and *Fastest Growing Infrastructure Bank in Eastern Europe*.

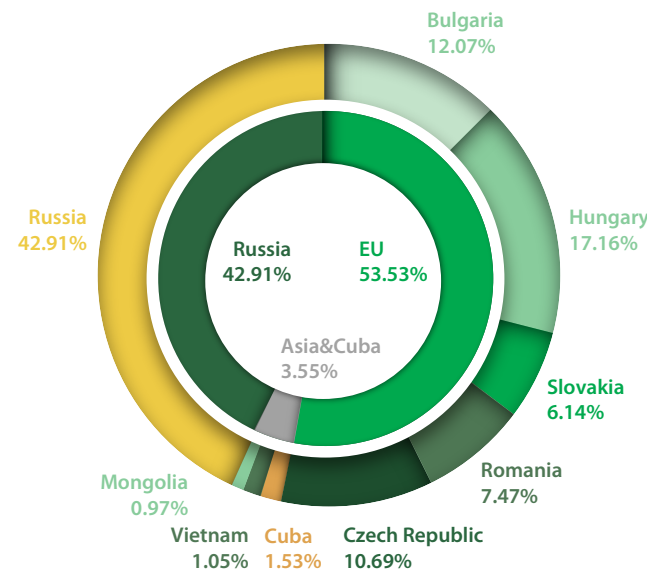
In February 2019 the Bank’s newly implemented corporate governance system received international recognition by the Association of Development Financing Institutions of Asia and the Pacific in the Corporate Governance nomination at the Annual Awards.

In March 2019 a high-level delegation of IIB undertook a business mission to Vietnam to hold a presentation for Vietnamese business and official meetings with the key government authorities as well. The Bank’s lending, technical assistance, and other abilities were discussed in the light of contribution to Vietnam’s economy and enhancement of cooperation between IIB and various companies and ministries in the country.

In June 2019 upon relocation of the Bank’s staff the Management Board of IIB held a widely-attended media event in Budapest, presenting its business strategy to leading Hungarian, European, and international outlets.

In July 2019 IIB hosted the annual meeting of the Global Emerging Markets Risk Database Consortium (GEMs) with participation of 40 high-rank risk officers from major international development banks.

In September 2019 an international business forum Partnerships for Greater Development Impact (attended by over 200 participants) took place on the sidelines of the Board of Governors and the Board of Directors meetings.

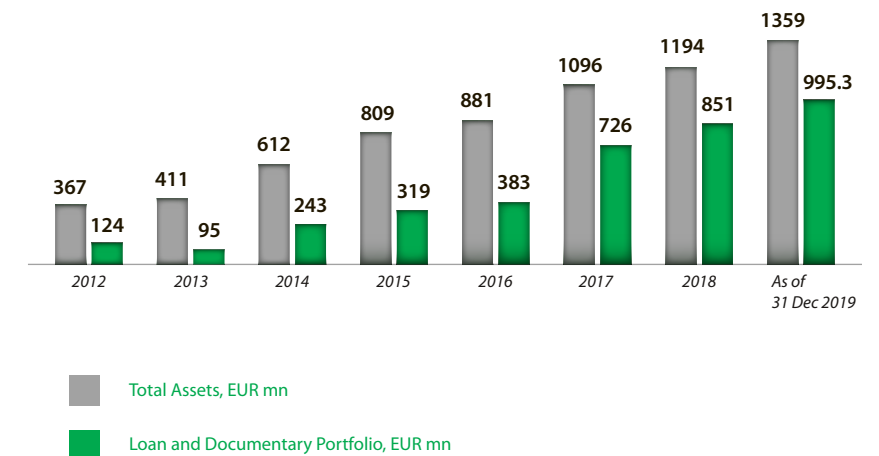


Paid-in capital structure as of 31 Dec 2019

In October 2019 the Chairperson of the Management Board Nikolay Kosov acted as a speaker in the third high-level international Budapest Water Summit dedicated to strategic issues of supporting water protection and conservation. A meeting with the Hungarian President Janos Ader, the patron of the Summit, took place on the sidelines of the event.

In October 2019 in Sofia IIB and Bulgarian Development Bank held an international conference Management of Compliance Risks in Financial Development Institutions attended by representatives of all major multilateral and national development banks.

In November 2019 IIB held the meeting of the Ambassadors



Assets and loan & documentary portfolio as of 31 Dec 2019

Club with the heads of diplomatic missions of the Bank’s member states in Budapest for the first time after the relocation to Europe.

In December 2019 the Board of Directors of IIB met in Budapest to sum up the results of the outgoing year including the successful completion of relocation to Europe and record growth of the loan portfolio reaching EUR 1 billion. The Bank allocated EUR 373 million for 19 new projects throughout the year.

In December 2019 the international media holding Global Banking and Finance Review (GBFR) awarded IIB with the title of the *Best Bank for Sustainable Development in Central and Eastern Europe*.



Financial Results

In 2019 the Group's balance sheet increased by EUR 165 million (or 14%) and reached EUR 1,359 million, liabilities increased by EUR 133 million (up to EUR 951 million) compared to the beginning of the year. The Group's equity increased by EUR 32 million (or 8.5%) and amounted to EUR 408 million due to contributions from Hungary (EUR 10 million) and Romania (EUR 3.7 million) and the change in securities revaluation fund due to beneficial market conditions as well. On 15th of January 2020 Hungary made an

additional contribution to the IIB paid-in capital in the amount of EUR 10 million. The Bank's net operating assets increased by EUR 195 million (or 17%) and reached EUR 1,315 million. The consolidated net profit for 2019 reached EUR 5.7 million.

Major factors affecting financial results

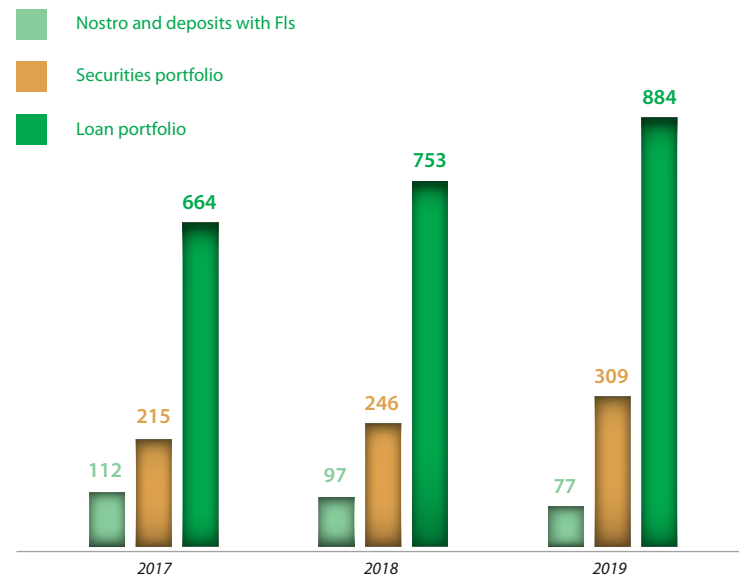
Due to the growth of loan portfolio the Bank managed to exceed the interest income from loans by EUR 3.2 million (EUR 40.4 million in 2019 compared to EUR 37.2 million in 2018). The net gains from operations with securities

reached EUR 2.7 million. The income from securities amounted to EUR 10.2 million (EUR 7.5 million in interest income and EUR 2.7 million in trading income).

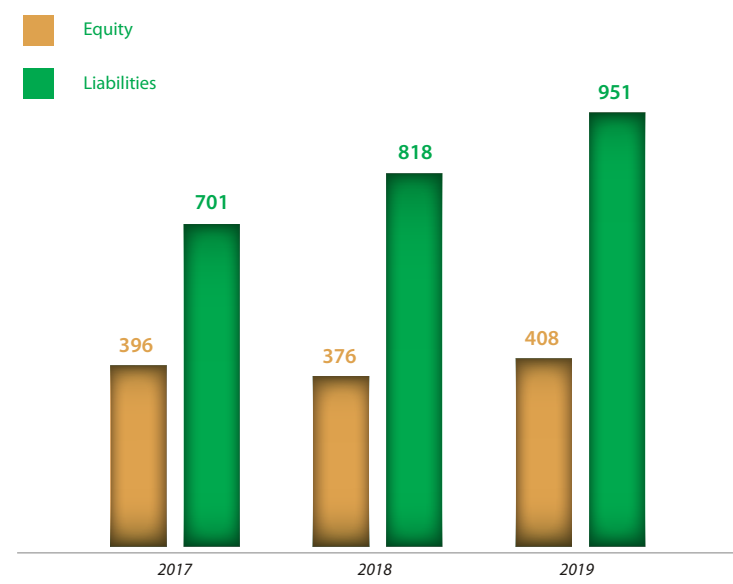
The part of IIB's building in Moscow was sold with a gain of EUR 3.0 million in December 2019.

The General and Administrative expenses and the Capital Investments upon 2019 results were performed at lower level than the approved limits.

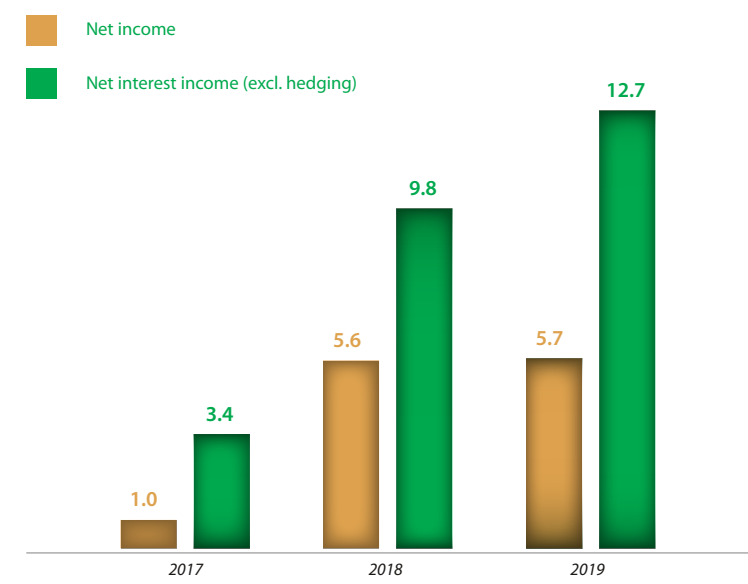
The total value of the development portfolio assets reached EUR 1,040.1 million or 76.5% of total assets at the end of 2018.



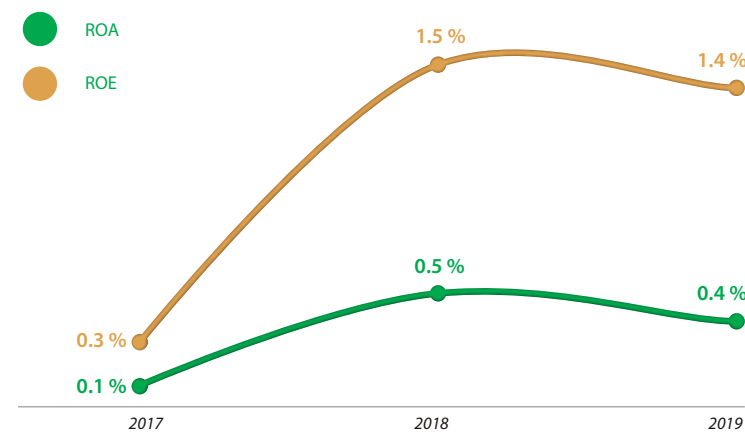
Structure of interest bearing assets (EUR mn)



Structure of liabilities (EUR mn)



Net income and net interest income (EUR mn)



ROA & ROE (%)



Lending & Investment

Loan and documentary portfolio

The Group's loan and documentary portfolio reached EUR 993.7 million (loan portfolio – EUR 903.0 million, documentary portfolio – EUR 90.7 million) showing the growth of EUR 141 million (17%) by the end of 2019.

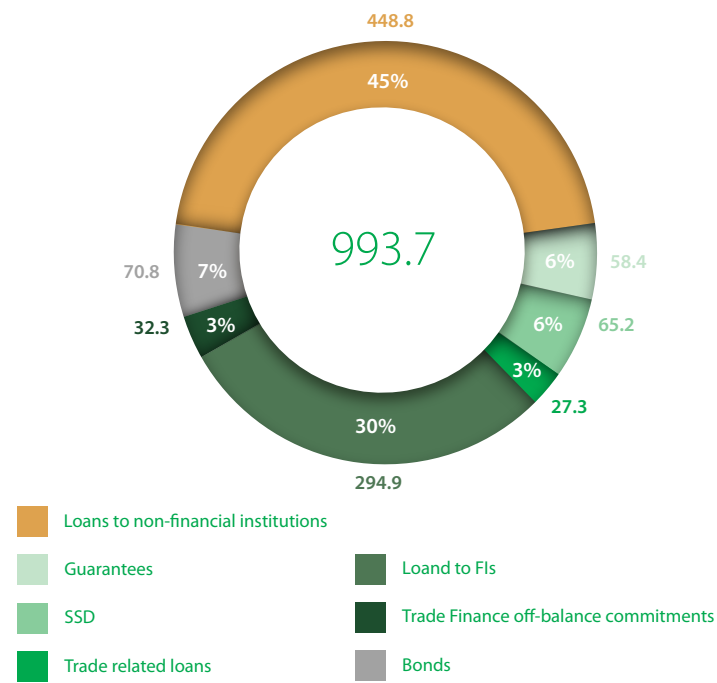
Loan portfolio

The share of loan portfolio in favour of the Bank's European member states increased to 55% in 2019 compared to 50% in 2018. The NPL ratio decreased to 1.6% in 2019 compared to 1.9% in 2018.

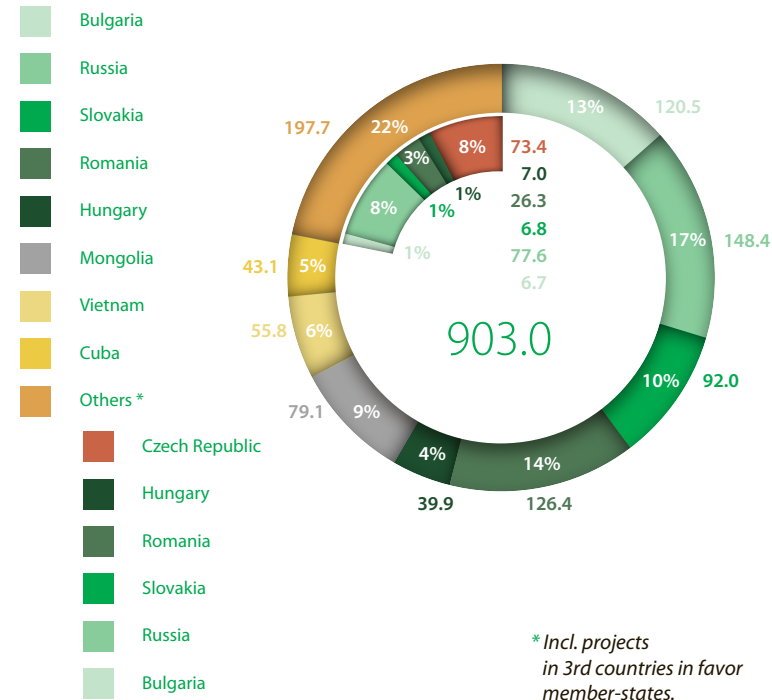
The largest share of the portfolio is represented by the projects in the financial sector (36%), power generation (22%), and manufacturing activities (18%).

Documentary portfolio

The Group's documentary portfolio increased by 12% by the end of 2019 and amounted to EUR 90.7 million, with EUR 58.4 million in guarantees and EUR 32.3 million in off-balance commitments related to trade finance (irrevocable reimbursement obligations, stand-by letters of credit). The major share of the documentary portfolio falls on Hungary and is aimed to support construction of one of the Europe's largest full-circle waterfowl processing complexes (Hunent). There is one more transaction in documentary portfolio to support export of pharmaceuticals from Hungary to Russia.

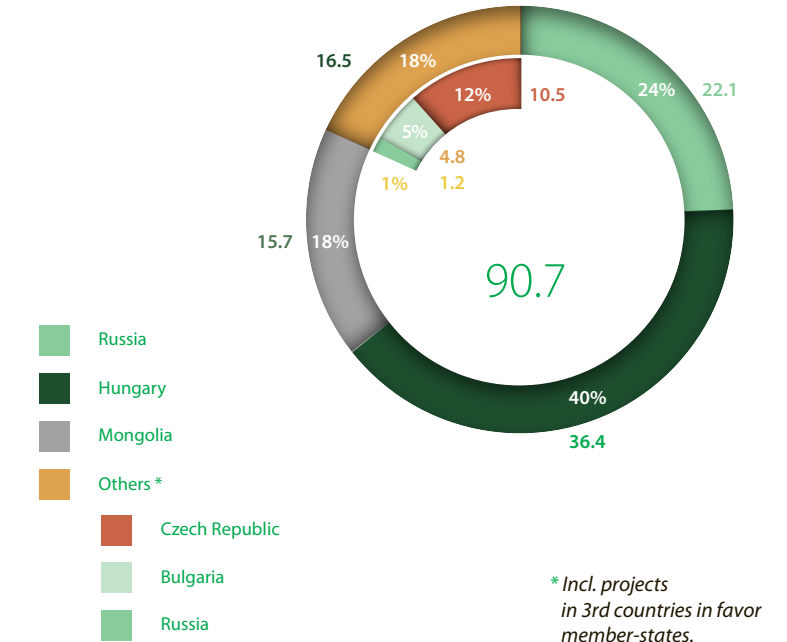


Product diversification of loan and documentary portfolio (EUR mn)



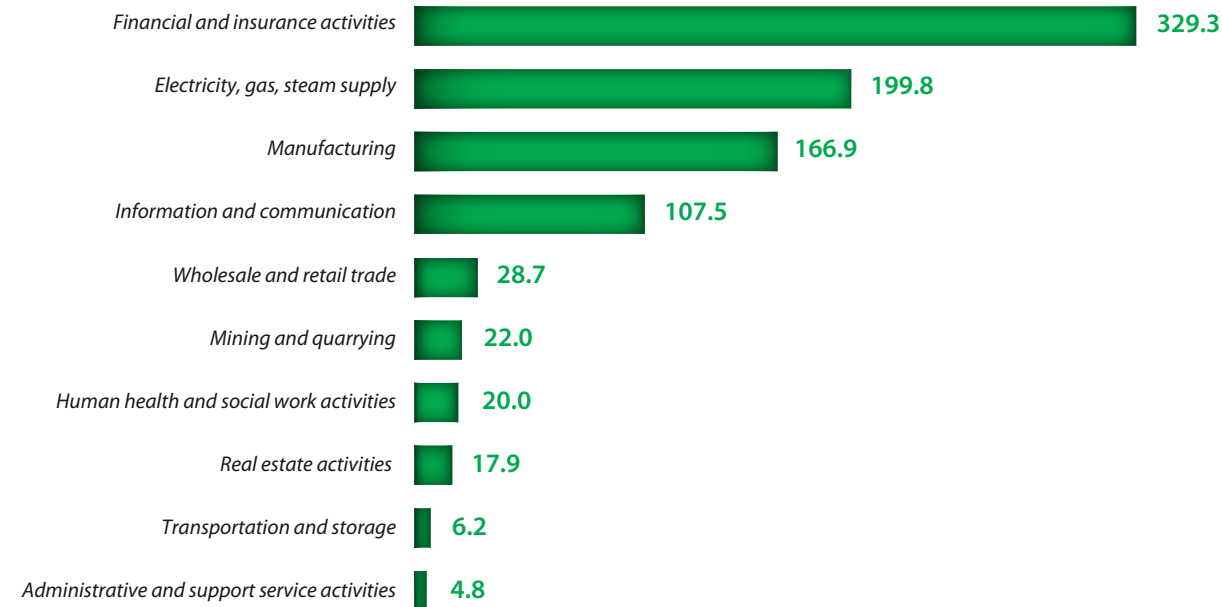
Gross loan portfolio by country (EUR mn)

* Incl. projects in 3rd countries in favor member-states.



Country diversification of documentary portfolio (EUR mn)

* Incl. projects in 3rd countries in favor member-states.



Loan portfolio by industries (EUR mn)

Selected investment projects disbursed in 2019

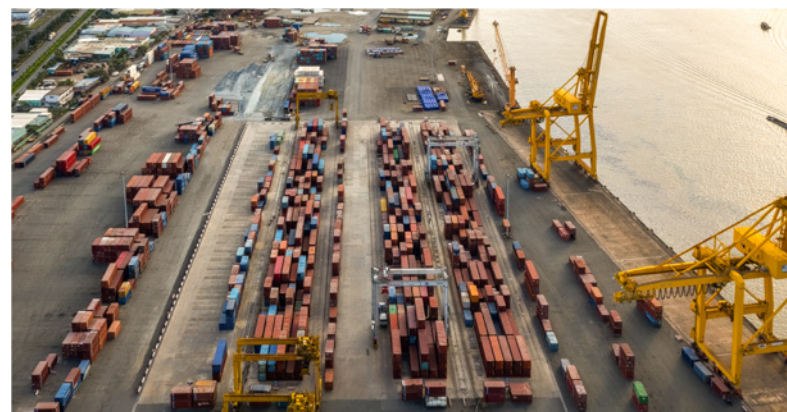


Country: Slovakia.
Project: Zvolenska teplarenska.

Client's description: the company is the largest energy producer and supplier in Zvolen city (the Slovak Republic) with a population of 68 thousand people and provides heat to the residential sector and adjacent industrial area.

Amount: EUR 30.9 mn
Tenor: 15 years.

Purpose of deal: modernization of heating plant (from coal use to biomass) to reduce emissions into the atmosphere; the new 77.5 MW thermal power plant will run on biomass (wood chips) and natural gas.



Country: Vietnam.
Project: Saigon-Hanoi Bank.

Client's description: SHB is in the top-10 of largest banks in the country, ranking 9th in terms of assets and 10th in terms of capital.

Product: bilateral loan.
Amount: USD 20 mn
Tenor: 7 years.

Purpose of deal: intermediated financing of infrastructure projects in Vietnam and export/import operations with IIB member countries.



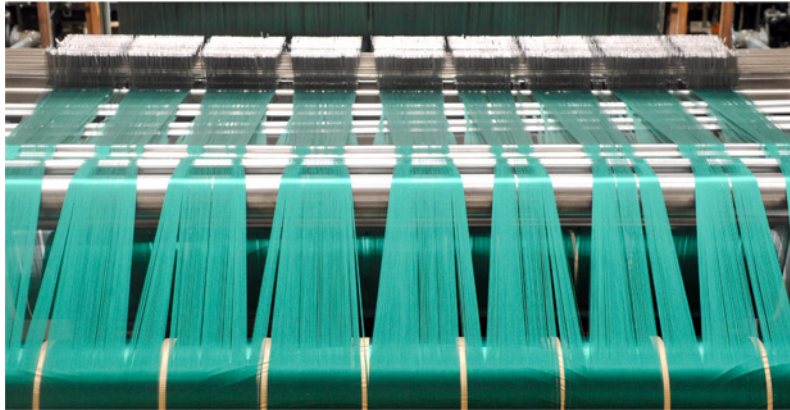
Country: Romania.
Project: Agricover.

Client's description: Agricover Credit is one of the first partners of IIB in Romania; the company provides financial products dedicated exclusively to crop growing and livestock farmers and is a member of Agricover Group, the leading provider of integrated solutions for agriculture in Romania and an essential link in the farmer-processor-consumer value chain.

Product: bilateral loan.
Total amount: RON 48 mn
Tenor: 7 years.

Purpose of deal: financing Romanian agricultural producers.

Selected investment projects approved by the Management Board of the Bank in 2018



Country: Mongolia.

Project: Xac Leasing.

Client's description: Xac Leasing is an equipment leasing company established in 2007 as a subsidiary of TenGer Financial Group, a reputable financial service group in Mongolia.

Product: bilateral loan.

Total amount: USD 5 mn

Purpose of finance: Mongolia's small and medium enterprises support.



Country: Russia.

Project: Nord Hydro (continuation of the project).

Client's description: Nord Hydro is the company that develops projects on input of new hydroelectric power plants, reconstruction and modernization of existing objects of small hydropower within the territory of the Russian Federation.

Product: syndicated loan.

Total amount: RUB 8,150 mn

IIB's share: RUB 4,075 mn

Tenor: 12 years.

Purpose of finance: construction of hydro power plants with aggregate installed capacity of 50 MW in the republic of Karelia; the project is co-financed by EADB and funded by NDB.



Trade Finance

The total amount of transactions issued under the Trade Finance Support Program (TFSP) of IIB exceeded EUR 376 million, of which more than EUR 127 million was due to the operations carried out in 2019.

The successful completion of the Bank's relocation to Budapest and acquisition of the European SWIFT code (IIBMHU22) gave a strong impetus to further growth of Hungarian trade finance portfolio and geographic diversification of partners in Central and Eastern Europe.



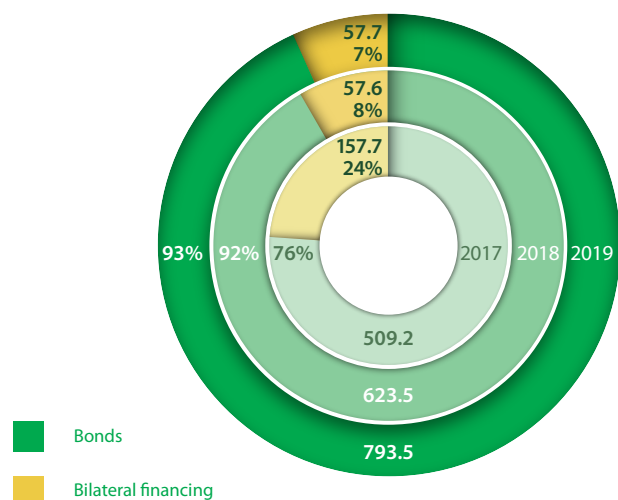
Long-Term Borrowings

In line with its development mandate IIB continued to actively promote the capital markets of its member states. The total volume of long-term financing amounted to EUR 850 million at the end of 2019. Funding diversification process by geographies and currencies continued in 2019 along with expansion of the investor base. IIB had notably placed its inaugural bond on the Budapest Stock Exchange being the first IFI to issue HUF denominated bond under Hungarian law. Currently IIB bonds are traded on stock exchanges in Bucharest, Budapest, Moscow, Prague, and Vienna.

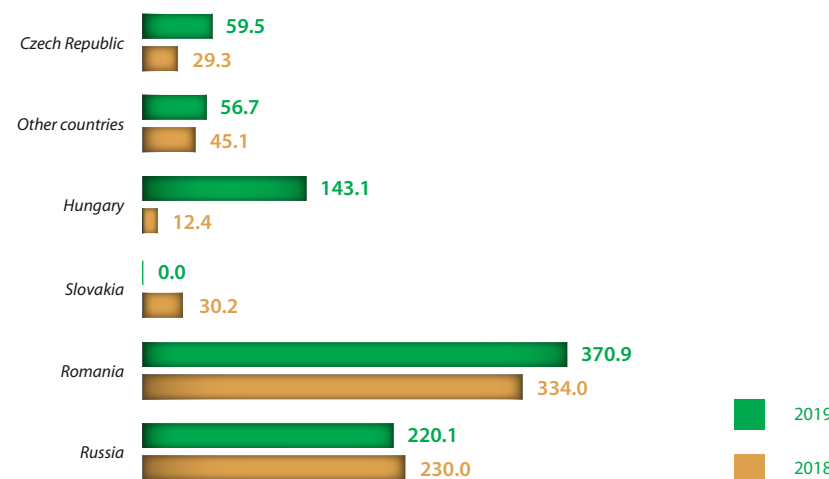
The Bank's total long-term borrowings amounted to EUR 850.2 million, including EUR 793.5 million in placed bonds and EUR 57.7 million in long-term bilateral financing at the end of 2019.

IIB executed its debut HUF denominated transaction with a 3-year maturity for HUF 24.7 billion in March 2019. The issuance was listed on the Budapest Stock Exchange following a first-time auction process. The nominal yield of the bond was 1.98% with an euro after swap price recorded at 3-month Euribor + 90.5 bps. IIB tapped the Hungarian

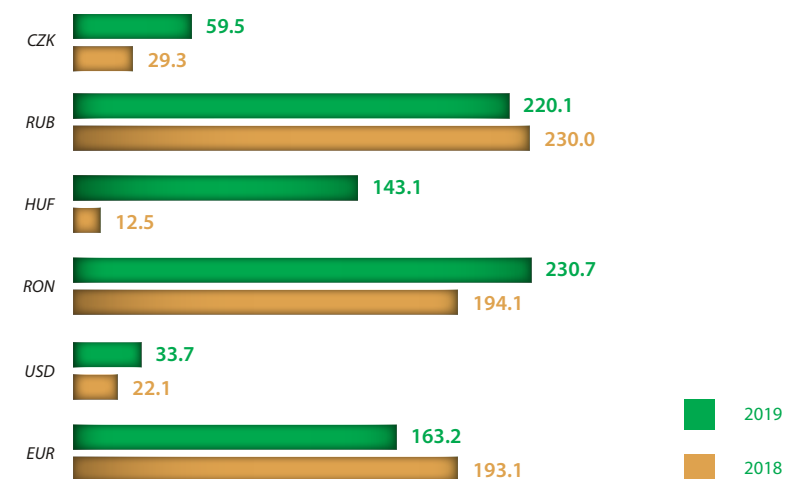
market for the second time in October 2019 bringing another very successful issuance in the volume of HUF 22.5 billion for a 3-year maturity with a coupon set at 1.25% per annum and nominal yield of 1.42%. IIB is the first international development bank to issue a HUF denominated bond under Hungarian law with documentation approved by the National Bank of Hungary and which is listed on the Budapest Stock Exchange and included in the collateral list of the National Bank of Hungary for money-market operations.



Long term borrowings by instruments (EUR mn)



Long term borrowings by country (EUR mn)



Long term borrowings by currency (EUR mn)

In April 2019 the Issuer successfully tapped the existing CZK 750 million issuance due in 2021. The tap amounted to CZK 750 million (EUR 29 million) with the pricing set at a discounted margin of 3-month Pribor + 35 bps.

Out of USD 50 million term loan facility from NDB the third tranche of USD 12.5 million was disbursed in August 2019. In November 2019 the Issuer successfully placed its fifth issue in the Romanian market in the record amount of RON 500 million (EUR 105 million) with a final coupon set at 3.98% per annum. EUR 134.7 million of long-term instruments was repaid during the reporting period. IIB was named the Best International Issuer of the Year by the Budapest Stock Exchange following the two successful issuances executed in 2019.

	2017	2018	2019
Avg. Balance EUR Interest Rate*	1.63%	1.37%	0.91%
Avg. New Funding EUR Interest Rate*	1.20%	1.07%	0.49%
EU share of Funding	52%	59%	70%
Nr. of geographies	11	12	12

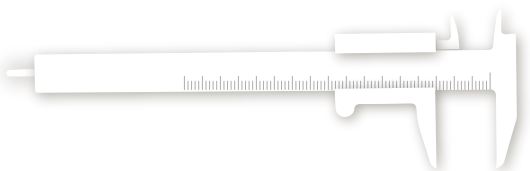
* Based on exchange rates on the dates of respective transactions.

The structure of long-term borrowings remains comparable with 2018 with strong domination of the bonds, share of the issued bonds set at the level of 93% of raised funding at the end of the year (92% on December 31, 2018). The long-term funds were well diversified by countries, currencies, and investors, and this was one of the drivers for

positive rating actions towards IIB. Following the issuances in Hungary IIB had diversified into Hungarian investor base and supported the debt capital market of one of its member states.

IIB has supported the European Investment Fund (EIF) in the launch of a regional fund-of-funds initiative focused on boosting equity investments in Austria, the Czech Republic, Hungary, the Slovak Republic, and Slovenia – Central Europe Fund of Funds (CEFoF). Current size of the Fund is EUR 97 million. The Fund of Funds is expected to mobilize at least around EUR 200 million in equity investments into start-ups and small mid-caps. The share of IIB amounts to EUR 10 million.

Technical Assistance Fund



About

The main purpose of the Technical Assistance Fund (TAF) is to finance provision of advisory services and technical assistance on the projects financed, or to be financed by IIB within its mandate. The target countries include Mongolia, Vietnam, and Cuba.

Slovak nationals or firms registered in the Slovak Republic are eligible to bid for projects supported by TAF. The fund was established at the initiative of the Ministry of Finance of the Slovak Republic in 2016.

In 2019 TAF continued to implement projects launched in 2018.



- FRC of Mongolia
- PeWaS s.r.o.
- Proxenta Cuban Investments, a.s.
- Asseco Central Europe, a.s.
- IMAO electric, s.r.o.
- Available (396,602 EUR)

Initial fund size: EUR 1,245,000

Ongoing projects

Client: Asseco Central Europe, a.s.
Consultant: Aspiro, a.s.
Country: Vietnam.
Budget: EUR 234,160.

Project description: the goal of the project is to assist Asseco Central Europe, a.s. in replacing street lighting of Hanoi with a smart and energy efficient system through a shared savings scheme. The project was started in September 2018, and was formally completed in April 2019, but Asseco, a.s. requested an extension of consultant's services. The new term of the project was started in July 2019 and is scheduled to be completed in July 2020.

Client: IMAO electric, s.r.o.
Consultant: ENVIROS, s.r.o.
Country: Vietnam.
Budget: EUR 198,990

Project description: the goal of the project is to provide the client with the necessary expertise related to opening and developing of biomass power plants using agriculture waste in the Thừa Thiên-Huế province of Vietnam, with a potential further nationwide scale-up. The project started in February 2019 and is scheduled to be completed in January 2020.

Completed projects

Client: PeWaS S.R.O.
Consultant: PEDAL Consulting S.R.O.
Country: Vietnam.
Budget: EUR 104,900

Project description: the project's aim was to test two innovative Aquaholder™ products of PeWaS S.R.O. in Vietnamese conditions and had a significant development effect. It was purported to potential mitigation of drought hazard in Vietnam. The project was started in October 2018 and was completed in June 2019.

Client: Proxenta Cuban Investments, a.s.
Consultant: Ernst & Young, s.r.o.
Country: Cuba.
Budget: EUR 91,745

Project description: the goal of the project was to provide technical expertise including: verifying assumptions of the project preparation and implementation; obtaining knowledge about market conditions, legal environment, risks, and regulation in Cuba; and developing relevant project documentation. The project was started in October 2018 and was completed in April 2019.

Client: Financial Regulatory Commission of Mongolia.
Consultant: Ernst & Young Slovakia, spol. s r.o.
Country: Mongolia.
Budget: EUR 198,600

Project description: the consultant performed in-depth analysis of the existing Mongolian legal framework in Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) area and prepared a comprehensive report identifying major legal issues with concrete recommendations on how to align Mongolia's national laws with the relevant FATF and other international standards. The consultant also prepared a number of draft legislative acts in the AML/CFT field. The project was started in December 2017 and was completed in August 2018.



Risk Management

The perfect balance of mission fulfilment, profit generation, and risk mitigation is a crucial consideration in the Bank's risk-taking. As an international financial institution IIB is not subject to national or international prudential regulation of the banking sector. However, the Bank's risk management framework is regularly reviewed and adapted to changing conditions to comply in substance with what IIB identifies as the relevant market standards and best practices, including the rules and guidelines of the Basel Committee on Banking Supervision.

The Board of Directors defines the Bank's risk appetite, which aims to align the Bank's willingness to take the risk with its statutory requirements, strategic business objectives, and capital planning.

As of the year 2019 the key risk indicators were as follows.

Indicator	EY 2018	EY 2019
Capital adequacy	34.3%	34.5%
LCR	175.2%	187.8%
NSFR	116.7%	121.7%
Leverage ratio	28.2%	27.1%
NPL	2.0%	1.6%

- Capital adequacy ratio slightly increased in the year 2019 from 34.3% to 34.5%, mainly due to the regulatory capital growth (Romanian and Hungarian capital contribution and available-for-sale security portfolio appreciation).
- Liquidity ratios remained historically high.
- Decline in the leverage ratio from 28.2% to 27.1% is caused by the total balance growth.
- Consistent trend of maintaining a high quality of the loan portfolio led to gradual NPL reduction.

As a part of the continuous efforts aimed at the alignment of the risk management system and processes with the industry's best practices and standards, a set of initiatives was carried out.

Country limits

The Risk Management team has introduced a new straightforward and transparent concept of country limit set-up based on 15 years Moody's probabilities of default with adjustments for volume of paid-in capital and credit rating.

Market contingency early warning system

The main objective of the System is early warning about periods of high volatility in stock and currency markets, money market, capital market, and about deteriorating market conditions regarding the counterparties of IIB as well.

Liquidity stress buffer

To maintain IIB's ability to meet its obligations in the face of a potential liquidity crisis the Risk Management team has initiated establishment of the liquidity stress buffer to ensure the Bank's readiness in the event of a sharp change in market conditions.

Stress test

A stress test in 2019 indicated the high sustainability of the Bank. The main risk indicators have improved comparing with the stress test in 2018 due to positive changes in the structure of the loan portfolio (in terms of internal ratings) and the bond portfolio (increase in the share of A-rated bonds).

IFRS 9 ECL validation framework

To follow the relevant international financial sector regulations and best practices in the area of risk management the Bank has established IFRS 9 ECL validation framework aimed at providing robust guidelines for IFRS 9 models backtesting.

Corporate rating and macroeconomic models calibration project

Under the objective of increasing robustness of the internal credit risk models the Bank conducted a calibration of the internal macroeconomic model for IFRS 9 provisioning and updated methodology of internal rating assignment for corporates and financial instructions.

GEMs Annual Meeting held in Moscow

The best risk management practices were the focus of discussion at the regular annual meeting of the Global Emerging Markets Risk Database Consortium (GEMs), which this year was organized and conducted under the auspices of the International Investment Bank. A three-day event involving more than 40 high-rank risk officers from major international development banks (17 institutions, e.g. EIB, IFC, IBRD, EBRD, AfDB, ADB, FMO, IADB).

Key issues on the agenda included data submission process, knowledge sharing on internal rating models, applications of the Capital Adequacy Framework and Restructuring, and other hot topics like data sharing initiatives, GEMs Web Tool, and data access by the third parties that are not part of the Consortium.





Treasury Operations

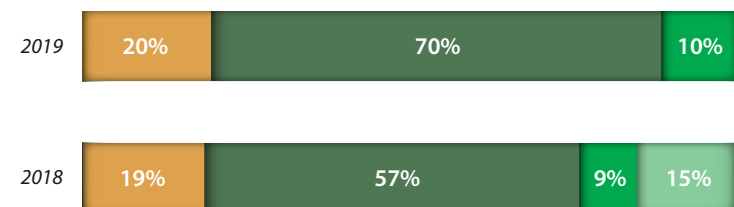
To involve and enhance the sustainable and ethical investment vector the Department of Treasury Operations launched a dedicated ESG Investment Division within its structure in the beginning of November 2019. As the result by the end of 2019 the Treasury Department significantly increased the share of investments in the Green Bond portfolio mainly in primary market, the share of green bonds amounted to 57% of the total bonds portfolio (3.8 times higher compared to that of 2018).

During the reporting period the Treasury managed to:

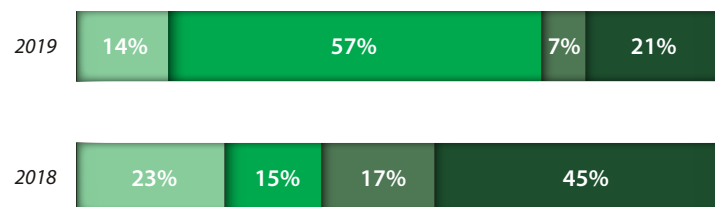
- continue the policy aimed at assets quality improvement and diversification, the share of the highest credit quality assets (AAA–A- rating groups) reached 70% (+ 13% compared to 2018);
- substantially decrease the number of assets below the investment grade (10% in 2019 compared to 24% in 2018).

The weighted average assets managed by the Treasury amounted to EUR 386 million with a yield of 2.7%. The weighted average securities portfolio amounted to EUR 295 million with a yield of 3.5%

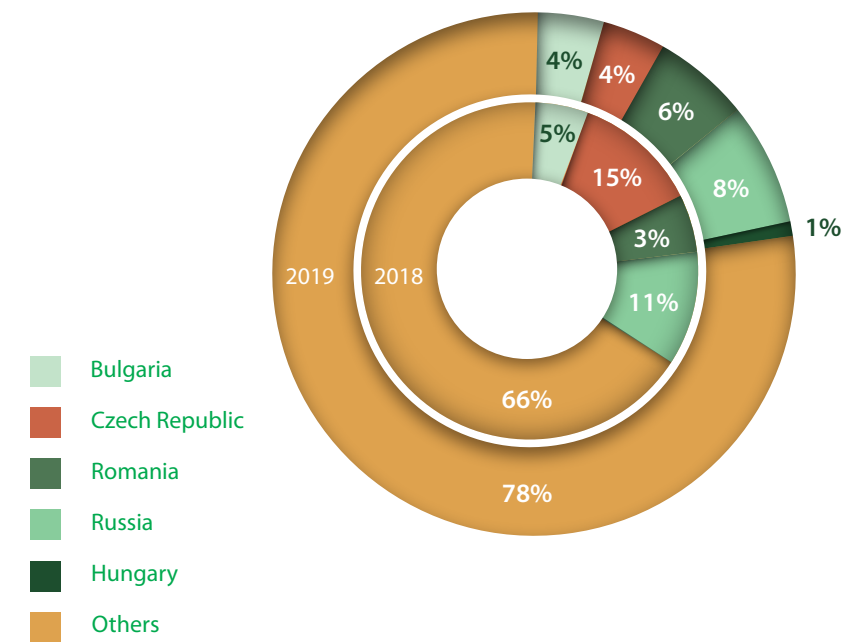
The interest income on treasury operations as of 31 December 2019 amounted to EUR 7.7 million. The net income from trading investment securities available for sale amounted to EUR 2.7 million.



Treasury assets by issuer rating



Security portfolio segmentation



Treasury assets by country 2018 VS 2019



Human Resources

The average number of the Bank's personnel amounted to 122 professionals in 2019 compared to 120 in 2018. Following the unprecedented decision on IIB headquarters relocation to Hungary all the key staff moved to Budapest successfully within 6 months and accommodated locally strongly supporting the new impulse given to IIB's activities carried out in the new environment. IIB has prioritized the objective to form a highly professional team thus candidate selection is based on competence, in-depth experience in relevant sectors, international experience, and educational background regardless of race, nationality, religious or ethnic identity, gender, age,

marital or social status. Nevertheless the Bank is guided by the principle of a well-balanced composition of personnel. Since its establishment in 1970 the Bank's team has always been composed of multinational professionals and its internationalization is increasing gradually after the headquarters relocation to Hungary. During 2019 as a result of active recruitment new employees from various countries joined IIB. Therefore the composition of the Bank's staff as of the end of 2019 represented 11 nationalities including employees from 8 member states. At the same time IIB pays special attention to maintaining skills of its employees as well as their consistent development. The Bank provides ample opportunities for both personal and professional growth of the employees.

The Bank maintains IIB internship program and attracts the brightest students and graduates in close cooperation with the universities of its member states.

Considerable work has been completed on internal HR documents and processes updating in connection with a three-tier corporate governance structure implementation and the headquarters relocation.

At the end of the day IIB joined the unique professional HR community of international financial institutions, which brings together HR professionals from leading IFIs and provides the opportunity to exchange experience and the best practices in the field of HR management. All these activities tend to ensure further sustainable development of IIB from HR prospective.



Information Technology

IT infrastructure of the Bank currently consists of 113 IT services, including 8 complex integrated systems distributed in 2 data centers (Russia and Slovakia). High standards of automation allow to form financial statements and reports as quickly and accurately as possible: the 2019 annual reports were fully prepared and sent to the auditor during the first 3 working days of 2020.

IT processes of IIB are built on the world's best IT management practices (ITIL 3.0 and COBIT), ensuring business continuity and a high level of internal service.

A well-thought-out IT architecture lets the Bank to switch to a self-isolation mode without the slightest halt to operations and allows it to be fully functional.

Compliance & Internal Control



The important change introduced in the year 2019 was implementation of Regulation on the Classification of Country Compliance Risks and High-Risk Jurisdictions, which contains a detailed methodology of country risk classification by applying a wide range of renowned sources. Thanks to the methodology the Compliance Department ensures that the risk level assigned to each country is the most accurate, objective and reflects all the risk factors encountered regarding to the jurisdiction.

Over the year CD presented an updated format of the compliance opinions on credit deals, financial institutions, and third parties, allowing to reflect all the risks that were identified, recommendations on their mitigation, and information based on which the conclusions were made in a better structured, more clear, and precise format. The standardized format helps in the decision-making process and makes the report more clear to readers as well.

The Bank reached a very important milestone by launching its first procurement project in one of the member states under its own procurement rules for projects financed by IIB.

The implemented procurement rules for financed projects are based on the best practices of other IFIs and published on the Bank's website. CD is responsible for ensuring compliance with the procurement rules, continuous monitoring of the project development and suitability, and practices of the participants.

During the year in order to integrate the Code of Conduct requirements into the Bank's activities CD drew special attention to preparation of other regulations and policies of IIB in order to line them up with the provisions of the Code. Several high-level and HR policies were updated and ensured that they were harmonized with the Code.



CD completed a revision of the Insider Regulation and included therein the rules concerning market sounding and deal-related marketing that meet the best standards of preventing misuse of insider information on the markets where IIB is represented. The rules ensure that IIB fulfills its responsibilities during the bond issuance process and avoids market abuse in the process of market sounding and deal-related marketing.

In 2019 the Bank finalized the integration of all main CD requirements into one core software, and main problems and gaps that had been encountered during the first years of exploitation were fixed by software developers. Today the major part of CD's daily operations related to KYC (Know Your Customer) and DD (Due Diligence) are executed automatically. At the same time in order to increase

automation of the processes IIB continued to work on the automation of screening of persons involved in the Bank's projects against compliance lists, assessment of compliance risk level, reporting, and communication between CD and other business units.

An important initiative of the Bank and also a great success on the global stage of professional compliance events, was organizing the third Annual Compliance Conference in Sofia in October 2019. Compliance Officers of international development banks and national development institutions of IIB member and observing states, third countries, and representatives of commercial banks took part in the conference and shared their experience and ideas on the issues of integrity and compliance.

CD representatives further participated in the Anti-Corruption Network program of the OECD during 2019. IIB also provided a grant to the program to develop business integrity and good corporate practice in Mongolia in line with the values of the Bank promoting transparency and compliance.

The past year was significant for IIB because for the first time the Bank participated in the Ethics Network of Multilateral Organizations where the Bank was invited as a new member following the unanimous decision of its members. Collecting and exchanging good practices of UN institutions and leading IFIs will support the Bank's intentions to build and maintain an ethically healthy organization with sustainably good reputation.



Corporate Social Responsibility

UN Global Compact and corporate social responsibility

The starting point of the process of introducing the principles of corporate social responsibility in the Bank's operations could be called IIB accession to the United Nations Global Compact. In March 2014 IIB took the voluntary commitment to comply with the 10 fundamental principles of the UN initiative related to protection of human rights, labor, and environment, and introducing anti-corruption measures.

In its operations IIB strives to encourage long-term economic, environmental, and social progress in the Bank's member states towards their achievement of sustainable development in:

- responsible social and business practices;
- responsible environmental practices;
- responsible labor practices.

Environmental & social policy framework

Assessment of environmental and social risks of each project is currently based on the Environmental and Social Impact Guidelines and is taken into consideration by the Credit Committee on par with documentation prepared by other expert departments.

IIB continued to further develop the methodology and policies with regards to environmental and social effect of the investment projects in 2019, and will proceed in 2020. In December 2019 the Board of Directors of IIB approved an

updated version of the Policy on Environmental and Social Sustainability of International Investment Bank. The document was published on the Bank website.

Pursuant to the existing internal plan to measure development impact from the projects financed in order to raise awareness among investors, rating agencies, partner IFIs, and international financial community on the Bank's impact in achieving sustainable development goals outlined by the United Nations, IIB has performed a portfolio breakdown by purposes of finance and targeted SDG.

65% of the Loan and Documentary portfolio amount relates to SDG highlighted below.



Following the joint application submitted to OECD by Hungary and the Slovak Republic the Development Assistance Committee (DAC) decided to include International Investment Bank in the Official Development Assistance (ODA) program. The Development Assistance Committee is a unique international platform of the largest providers of economic aid promoting inclusive and sustainable growth in developing countries. IIB was included in the list of international organizations through which such assistance can be provided since some of the Bank's member states fall under the definition of developing according to the OECD classification. This significant event was preceded by intensive consultations and active joint work of OECD experts, delegations of Hungary and Slovakia at IIB, and the Bank's team.

From mid-2019 a certain share of contributions made by OECD member states to the Bank's equity from 2018 onwards can be reported by donor states as a contribution to development support and as ODA-eligible amounts. This also helps to comply with the UN recommendations regarding contributions made by developed countries to developing countries set at 0.7% of Gross National Income (GNI). The ODA coefficient for IIB was approved at 29%.

Sustainable development and environmental protection grants

In 2019 the Bank continued to provide support for projects in member states aimed at environmental protection in general and water preservation and sanitation in particular. IIB has been carrying out this important work since 2015, and will continue to do so in the future.

Clear Water. Happy Tisza Project

An important eco-grant supports a large-scale environmental program Clear water. Happy Tisza aimed at combating the plastic pollution of Hungary's second largest river. The main goal of the project is to conduct a scientific expedition that will sail along the entire length of Tisza to create a detailed map of polluted areas and analyse composition and origin of plastic pollution as well. The organizers also reported that the expert group of the project will include leading scientists and environmental researchers. Collected data will help to compose a detailed report containing comprehensive analysis of the situation and recommendations for its full-scale improvement.

The length of Tisza is about one hundred kilometres, and it flows through territories of 5 European countries: Hungary, Romania, Slovakia, Serbia, and Ukraine, of which the first three are IIB member states. One of the desired outcomes is launch of a website and mobile application, which will become an effective tool for continuous monitoring of the environmental situation throughout the river basin that will



help consolidate efforts of volunteers, local communities, authorities, and business to solve this outstanding problem vital for the whole Central and Eastern Europe region.

The Bank's mandate as an international financial institution suggests that in all areas of its activities it aims to achieve the UN sustainable development goals in general, including combat negative climate changes, conserve and rational use of water resources, and protection of land ecosystems. The project was warmly welcomed by the CEE civil society and received wide positive national and international media coverage including the National Geographic magazine.

Green office concept

The Bank continued to promote Green Office principles in its activities in the reporting year, namely:

- transferred additional documentary processes into electronic form;
- stopped using plastic cups in common areas except for conference rooms, promoting using non-disposable dishware;
- installed grease filters on sewage pipes to reduce the Bank's impact on wastewater;
- continued collection of used batteries for special disposal.

The Bank purchased 665 packs of paper in 2019 which is 18% less than in 2018. 3,430 kg of archive documents and waste-paper were transferred to disposal and recycling.



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