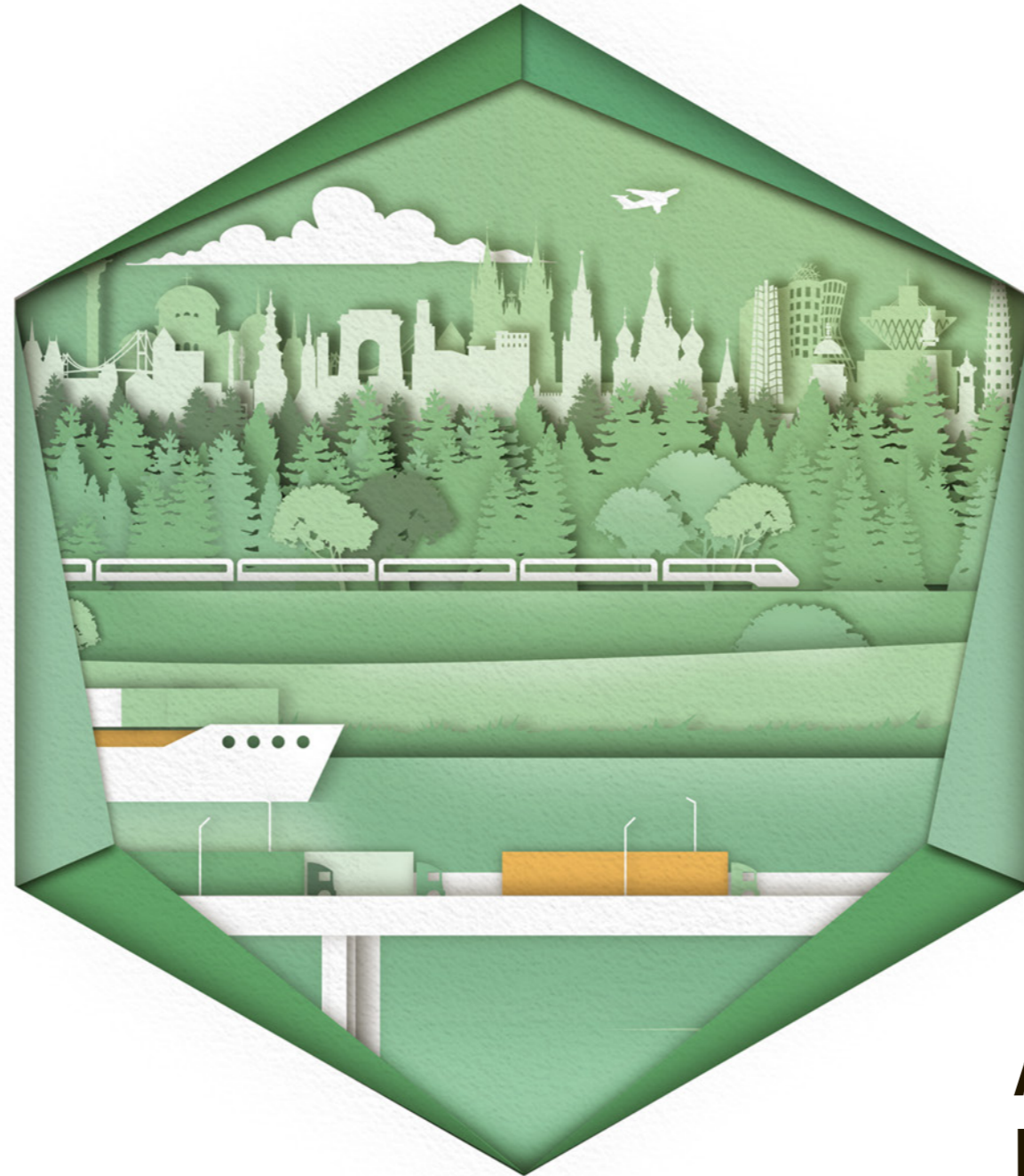


INTERNATIONAL  
INVESTMENT  
BANK

IIB.INT



**Annual Report  
International  
Investment Bank  
2018**



INTERNATIONAL  
INVESTMENT  
BANK

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Dear colleagues, clients and partners of International Investment Bank,

I am happy to present to you the Annual Report on the activities of IIB in 2018.

International Investment Bank has been demonstrating remarkable progress since its relaunch in 2012, and last year was no exception. Moreover, I would even dare say that 2018 has marked a crucial milestone in the success story of the Bank, considering the results achieved and the significance of decisions taken by our shareholders and management. The scale of those decisions empowers IIB profoundly and provides for its further long-term growth and development.

In the reporting period, the Bank demonstrated positive dynamics of all the key performance indicators, including the net profit increase of more than five times compared to last year, growth of assets and loan portfolio, improvement in quality of the treasury portfolio, volume growth and diversification of capital markets funding.

Above-mentioned achievements did not go unnoticed. 2018 became a record year for IIB with regards to credit ratings activities. The leading international credit rating agencies took four positive actions on the Bank, letting IIB enter an elite club of international financial institutions with A-level investment ratings.

The Bank increased the volume of loans granted and guarantees issued within the reporting period, actively operating in all of its nine member states. The loan portfolio grew by 13.4% and reached EUR 753 mln. The total volume of support provided to the EU shareholder countries reached 50% of the total portfolio. It is important to note that there was an increase in a number of projects with the integration component covering interests of two and more member states, which comprised more than 35% of the loan portfolio at the end of 2018. We plan to pay close attention to this indicator with a view to keep increasing it. Active development of the partnership network also led to growth in a number of projects implemented in collaboration with other financial institutions. The share of syndicated loans in the portfolio reached 48% at the end of 2018. The non-performing loans figure decreased from 4.5% to a record 1.9% demonstrating high efficiency of the risk management system.

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 681 mln at the end of 2018. The funding diversification process by geographies and currencies continued in 2018, along with the expansion of the investor base. Currently IIB bonds are traded at stock exchanges in Bratislava, Bucharest, Budapest, Moscow, Prague, and Vienna.

In August 2018 new Statutory Documents of the Bank entered into force after ratification processes had been finalized in all the shareholder countries. The most important related changes are the introduction of a three-tier corporate governance system and transition to proportional voting system with the double-majority rule. Such structure corresponds with the best practices and corporate governance standards of the leading international financial institutions. This fact was also pointed out by the World Bank's experts, who provided advisory services to IIB during this transition. The new edition of the Statutory Documents increases the authorised charter capital of the Bank to EUR 2 bn, opening additional opportunities to attract new shareholders to the Bank.

Successful results of the IIB activities led to a series of decisions at the end of the year, long-term strategic importance of which should not be underestimated. During the inaugural meeting of the Board of Governors in Cuba in December a unanimous decision to relocate IIB Headquarters from Moscow to Budapest was adopted. Shareholders stressed that such move was the logical continuation of the Development Strategy aimed at comprehensive expansion of IIB activities in the European markets in the interest of all its shareholders. The relocation of the Bank's Headquarters to the European Union would enable growth in the Bank's capital, provide further increase in the Bank's lending and investment activities, lead to a decrease in the Bank's cost for funding, raise brand awareness of the Bank.

Confirming their trust in IIB, our shareholders also approved a new capitalization program for 2020–2022 in the amount of EUR 200 mln. This will lead to further strengthening of the institution's capital base and a substantial increase in the investment portfolio serving the interests of all member states.

In 2019, the Bank will continue its progressive development as an efficient modern international financial institution, but with the address in Europe. Reported results serve as a vivid example of validity of the chosen strategic direction of IIB. We intend to further undertake all necessary steps to maintain a vast dynamic of performance growth aimed at supporting the member states' economies and developing strong trade and economic ties between them.

I wholeheartedly thank our international team for its constant efforts and enthusiasm, and our shareholders and partners for continuous trust.

Chairperson of the IIB Management Board  
Nikolay Kosov



## Key Events

### Figures

- According to the consolidated financial statements of the IIB Group, which consists of International Investment Bank and its subsidiary IIB Capital JSC, by the end of 2018, the Group's assets reached EUR 1 194 mln (+ 9% compared to 2017, + 5% compared to the indicator for 2018 in the Development Strategy 2018–2022).
- The increase in assets was mainly driven by the growth of the loan and documentary portfolio, which amounted to EUR 832,5 mln at the end of 2018 (+ 17% compared to 2017).
- The total volume of long-term funding amounted to EUR 681 mln. The Group diversified its fundraising by countries, products, maturities and investors, including bond placements on the leading EU markets, including those of the member states.
- The paid-in capital figure reached EUR 325,96 mln.

### Credit Ratings

All credit rating agencies took positive rating actions on IIB in 2018 owing to the combination of improved treasury quality assets, falling funding costs, proven track record of risk management and NPLs, and diversification of the loan portfolio\*.

Moody's	<b>A3</b>	Stable (April 2018)
Fitch	<b>BBB+</b>	Stable (November 2018)
S&P	<b>BBB+</b>	Stable (April 2018)
Dagong	<b>A</b>	Positive (February 2018)

\* On March 7, 2019, the international rating agency S&P Global upgraded long-term rating of International Investment Bank to A- with a stable outlook

### Key shareholder decisions

At the inaugural IIB Board of Governors meeting in December 2018, the member states approved the following core strategic issues:

- relocation of the Bank’s Headquarters to Budapest;
- the new capitalization program in the total amount of EUR 200 mln until the end of 2022.

Relocation of the IIB Headquarters to Budapest is a logical continuation of the Development Strategy of the International Investment Bank for 2018–2022 prepared in collaboration with the World Bank Group and aimed at a comprehensive expansion of IIB activities in the European markets for the benefit of all its shareholders. As a location, the European Union will contribute to the growth of the capital base and the level of credit and investment activities, enable IIB to attract low-cost financing from the national and multilateral development banks, help to further improve the Bank’s credit ratings and, as a result, reduce the cost of funding, increase international recognition of the Bank, and create opportunities for attracting new shareholders.

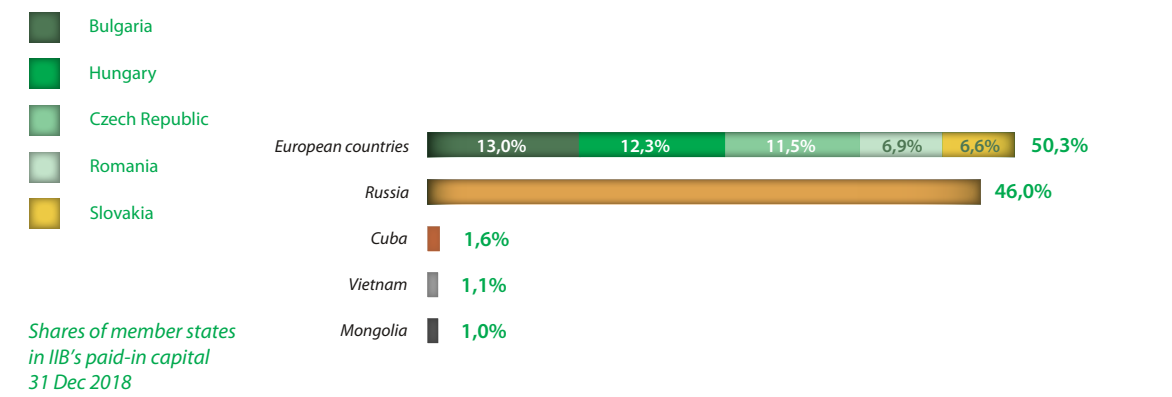
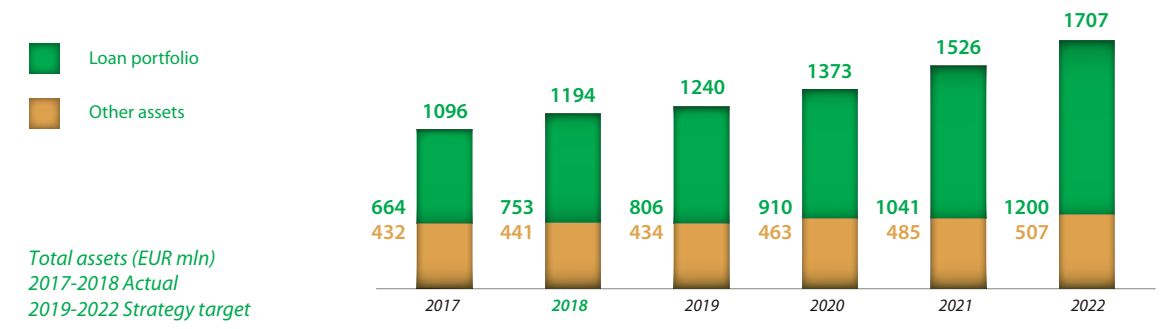
### Corporate Governance

The Protocol Amending the Agreement Establishing the International Investment Bank and its Charter came into force on August 18, 2018, paving way to an upgraded edition of the Statutory Documents. Upon entering into force of the Protocol, IIB increased its authorized charter capital to EUR 2 bn, moved to the new three-tier corporate governance structure (the Board of Governors, the Board of Directors and the Management Board) and implemented the new voting system. The document implied a transition from the ‘one country – one vote’ rule to the proportional voting system with voting powers of the member states in the Board of Governors and the Board of Directors granted pro rata to their share in the IIB paid-in capital. At the same time, the double majority rule in voting was applied.

Such system corresponds with the best practices of leading international financial development institutions, and the reform of the corporate governance system of International Investment Bank won the annual award of the Association of Development Financial Institutions of Asia and the Pacific (ADFIAP) in the ‘Corporate Governance’ nomination.

### Partnerships

- Cooperation agreement with the Central American Bank for Economic Integration (CABEI) was concluded.
- IIB became a member of the International Development Finance Club (IDFC) and joined the Multilateral Financial Institutions’ Working Group on Environment and Social Standards (MFI-WGESS).
- The Bank hosted the annual ‘ALM and Risk Management Forum for MDBs’ in Moscow, and organized the second annual Conference ‘Managing Compliance Risks in Development Financial Institutions: Multilateral and National Experiences’ in Budapest.





## Financial Results

The Group's balance sheet increased by EUR 98,3 mln (or 9%) and reached EUR 1 194,4 mln in 2018, liabilities increased by EUR 118 mln (up to EUR 818,4 mln) compared to the beginning of the year. The Group's equity decreased by EUR 19,6 mln (or 4,9%) and amounted to EUR 376,0 mln on December 31, 2018 due to implementation of IFRS 9.

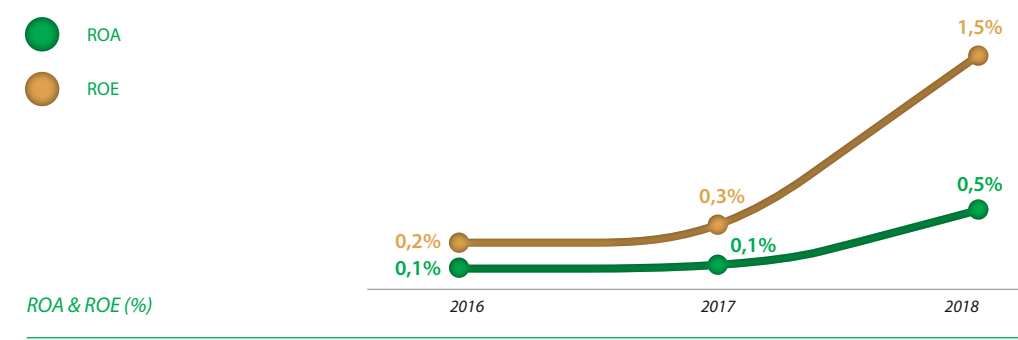
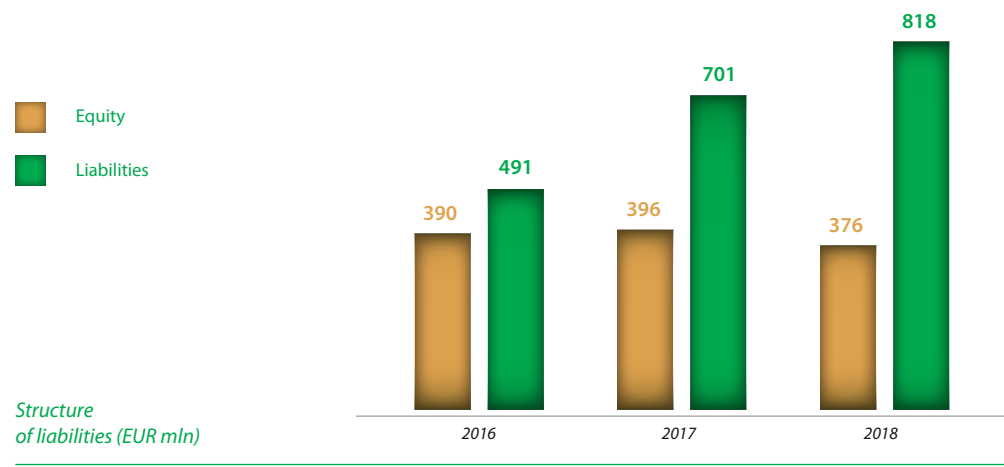
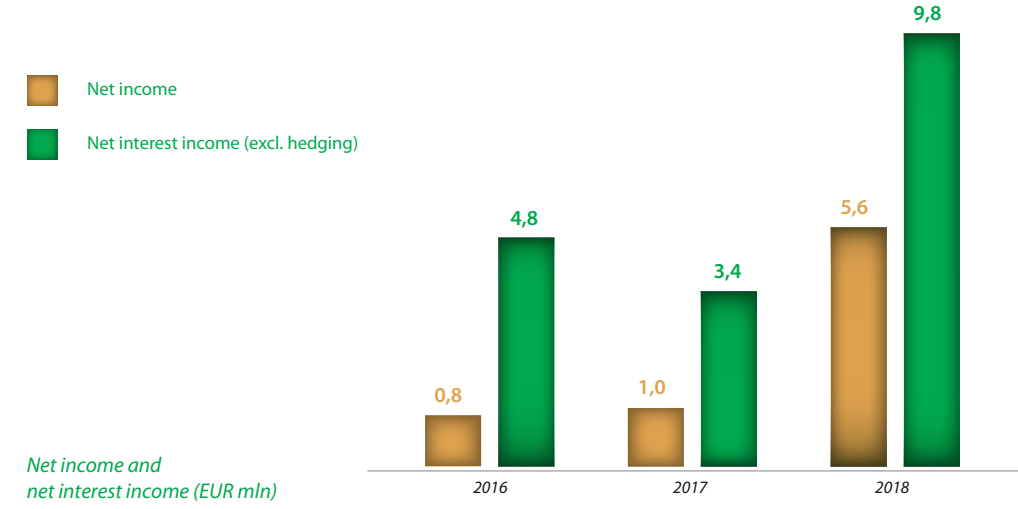
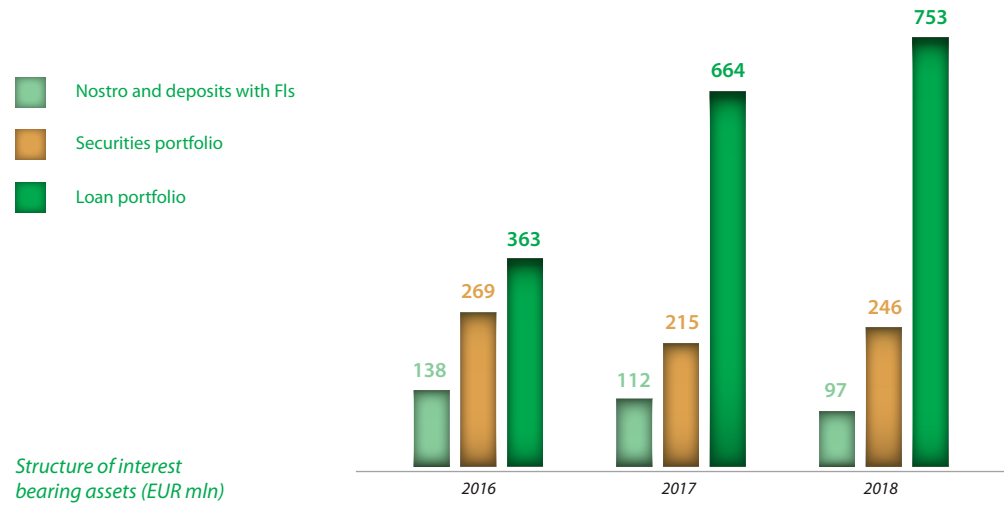
The Group's net interest bearing assets increased by EUR 105 mln (or 10,5%) and reached EUR 1 096 mln on December 31, 2018.

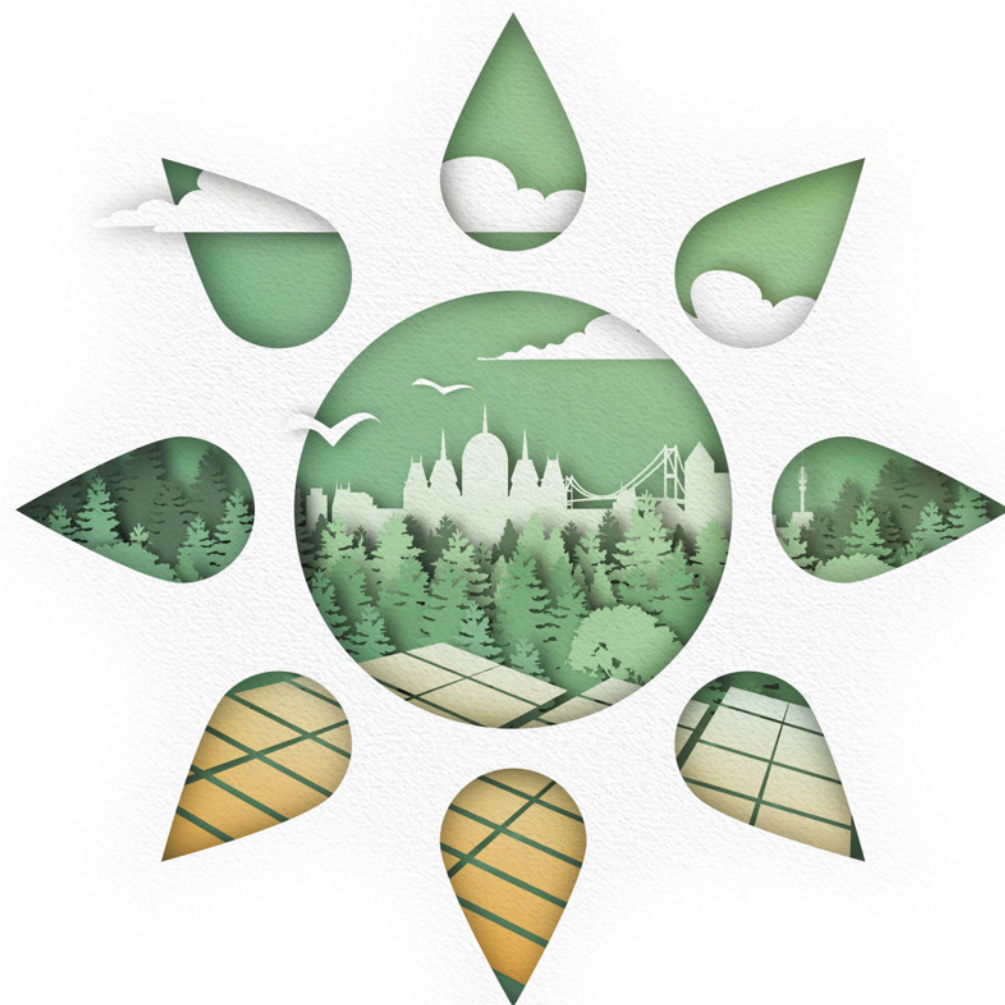
The consolidated net profit for 2018 reached a record high EUR 5,6 mln.

Financial results were positively affected by the following factors:

- the Bank managed to exceed significantly the interest income from loans by EUR 11,0 mln (EUR 37,6 mln in 2018 compared to EUR 26,7 mln in 2017) due to the growth of the loan portfolio;
- actual yield on the securities portfolio, including income from the sales of securities, amounted to 4,1% (compared to 6,6% in 2017) due to the growth of investments in high-quality securities with lower yield; the total income from the securities transactions amounted to EUR 9,2 mln at the end of 2018.

The total value of the Development Portfolio assets reached EUR 864,8 mln or 72,4% of total assets at the end of 2018.





## Lending & Investments

### Loan and documentary portfolio

The Group's loan and documentary portfolio reached EUR 832,5 mln (loan portfolio – EUR 752,8 mln, documentary portfolio – EUR 79,7 mln) by the end of 2018, showing the growth of EUR 120,1 mln (17%) in the reported period. The major share of the loan and documentary portfolio (69%) consists of the loans to non-financial corporations.

### Loan portfolio

The net loan portfolio increased by 13,4% or EUR 89 mln and reached EUR 752,8 mln over the reported year. The IIB European member states' share in the loan portfolio increased to 44% in 2018 compared to 41% in 2017. The NPL ratio decreased to 1,9% in 2018 compared to 4,5% in 2017.

The largest share of the portfolio is represented by the projects in the financial sector (26%), power generation (24%), rent and leasing (16%).

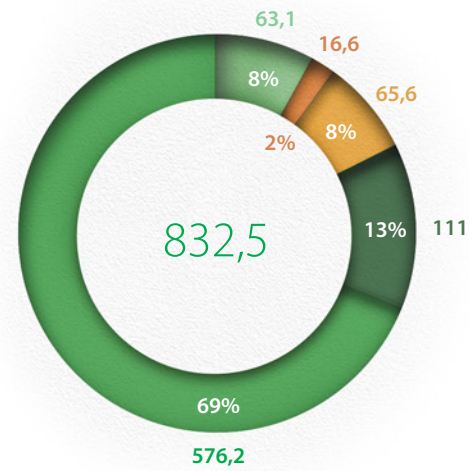
### Documentary portfolio

The Group's documentary portfolio increased by almost a half by the end of 2018 and amounted to EUR 79,7 mln, of which EUR 16,6 mln are irrevocable reimbursement obligations (IRU) and EUR 63,1 mln are the guarantees. The major share of the documentary portfolio falls on Hungary and is aimed at supporting the construction of one of the Europe's largest full-circle waterfowl processing complexes (Hunent).

The total amount of trade finance transactions exceeded EUR 247 mln, of which more than EUR 150 mln were due to the operations carried out in 2018.

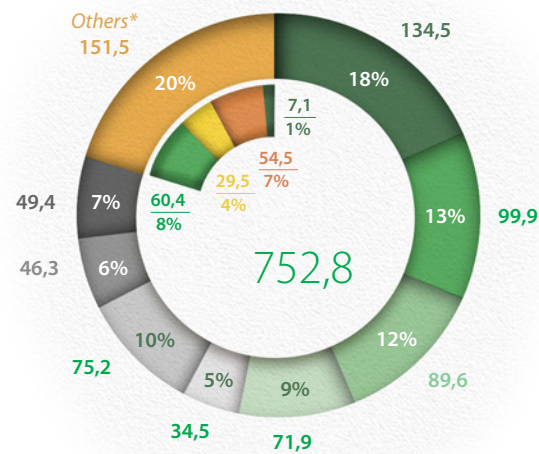


- Guarantees
- IRU
- Trade related loans
- Loans to FIs
- Loans to non-financial institutions



Product diversification of loan and documentary portfolio (EUR mln)

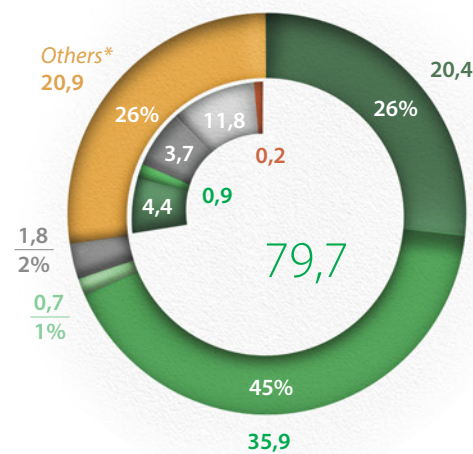
- Bulgaria
- Hungary
- Russia
- Mongolia
- Slovakia
- Vietnam
- Romania
- Cuba
- Czech Republic
- Others



Net loan portfolio by country (EUR mln)

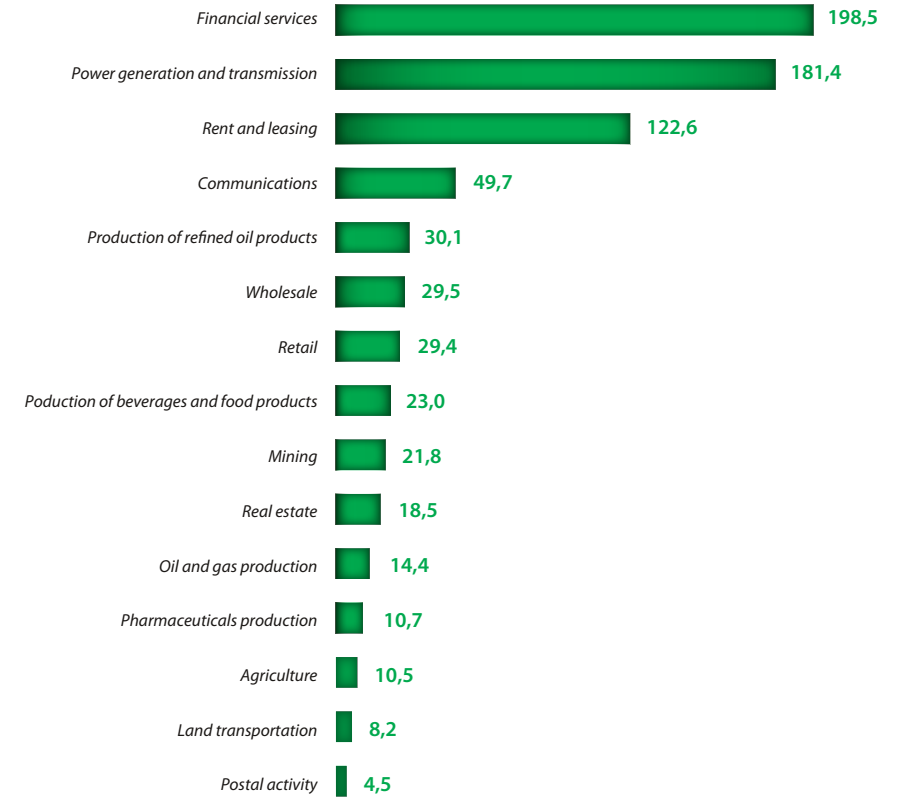
\* Incl. for projects in 3rd countries in favor member-states

- Russia
- Hungary
- Mongolia
- Bulgaria
- Czech Republic
- Slovakia



Country diversification of documentary portfolio (EUR mln)

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



Net loan portfolio by industries (EUR mln)

According to the results of its activities in 2018 IIB was recognized as 'The Fastest Growing Infrastructure Bank Central Europe' and 'The Fastest Growing Infrastructure Bank Eastern Europe' by the international publication Global Banking and Finance Review due to the positive dynamics in the growth of the Bank's loan portfolio in the region and its activities in the capital markets of the CEE member states.

IIB also received 'The European Global Banking Award' as 'Best Trade and Investment Bank – CEE' in 2018.



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



**Country:** Hungary      **Project:** Hunent

**Client's description:** Hunent is one of the biggest waterfowl processing plants in Hungary. The company has become a significant market player in recent years not only in the domestic market, but also in several member states of the EU and in the Far East, which is mainly due to its high quality products.

**Product:** guarantees

**Amount:** EUR 37,3 mln (EUR 22 mln and HUF 4,75 bn)

**Tenor:** 10 years

**Purpose of deal:** guarantees to finance the construction of a new green-field production facility in Mélykút with the full spectrum of waterfowl processing.



**Country:** Bulgaria      **Project:** Eurohold II

**Client's description:** Eurohold is a leading Bulgarian company with operations across the Balkans focused on non-banking financial services and asset management, leasing and sales of new cars and general insurance. The company operates, among other countries, in two IIB member states (Bulgaria and Romania). The bulk of the income of the Group's insurance business is Romania (73%) and Bulgaria (22%).

**Product:** bilateral loan

**Amount:** EUR 10 mln

**Tenor:** 7 years

**Purpose of financing:** general corporate purposes including acquisition financing.



**Country:** Vietnam      **Project:** VPBank Finance

**Client's description:** the company was originally founded as the Consumer Finance Division of VPBank. After 8 years of operation, VPBank Finance has become the market leader in the consumer finance market of Vietnam. With over 17,500 employees and a diversified network of over 13,000 points of sales nationwide operated in a reliable collaboration with more than 9,000 partners, VPBank Finance proudly delivers a whole range of multi-accessible, flexible and effective financial solutions to nearly 10 millions of Vietnamese through consumer lending products and services now.

**Product:** syndicated loan

**Total amount:** USD 350 mln

**IIB's share:** USD 19.5 mln

**Tenor:** 3 years

**Purpose of finance:** intermediated financing to support SMEs and consumers in Vietnam.

**Country:** Mongolia      **Project:** Khan Bank

**Client's description:** Khan Bank, with 537 branches nationwide, is the largest commercial bank in Mongolia providing banking services to the estimated 70% of Mongolian families.

**Product:** syndicated loan

**Total amount:** USD 120 mln

**IIB's share:** USD 20 mln

**Tenor:** 5 years

**Purpose of finance:** intermediated financing to support SMEs in Mongolia in cooperation with FMO.



**Country:** Russia      **Project:** Nord Hydro

**Client's description:** Nord Hydro is the management hydrogenerating and engineering company with activity in the area of development 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 mln

**IIB's share:** RUB 4 075 mln

**Tenor:** 12 years

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



**Country:** Russia      **Project:** Pulse

**Client's description:** Pulse is one of the largest national pharmaceutical distributors in Russia.

**Product:** guarantees

**Amount:** RUB 1 500 mln

**Tenor:** 2 years

**Purpose of financing:** support of export of pharmaceutical products from Hungary in cooperation with OTP Bank.





**Country:** Romania      **Project:** Urgent Cargus

**Client's description:** Urgent Cargus S.R.L. operates as a courier company that provides national and international delivery services. It carries out over 8 million deliveries per year, promptly serving more than 35 000 clients every month.

**Product:** syndicated loan

**Total amount:** RON 350 mln

**IIB's share:** RON 32.6 mln

**Tenor:** 7 years

**Purpose of financing:** financing the acquisition and business expansion of the company.



**Country:** Slovakia      **Project:** Slovenske Elektrarne

**Client's description:** Slovenske Elektrarne engages in production and sale of electricity in the Slovak Republic. It also generates and sells heat and provides ancillary services to the power grid. The company operates 31 hydropower, 2 nuclear, 2 thermal, and 2 solar power plants with a total installed capacity of 4 080.92 MW. It generates 69% of the overall electricity production in Slovakia.

**Product:** bilateral loan

**Amount:** EUR 90 mln

**Tenor:** 7 years

**Purpose of financing:** general corporate purposes (including export and import operations with the IIB member states) and investment related to environmental protection or electricity production at hydroelectric power plants.



**Country:** the Czech Republic

**Direction:** trade finance (TF)

**Products:** trade related loans, irrevocable reimbursement undertakings

**Amount:** EUR 33,5 mln since 2015

**Examples:**

- deliveries of small hydro power plants from the Czech Republic to Armenia;
- deliveries of water purging compressors from the Czech Republic to Belarus;
- deliveries of Skoda vehicles from the Czech Republic to Belarus.

**Country:** Russia      **Project:** State Transport Leasing Company

**Client's description:** STLC is one of the leading companies on the Russian leasing market (one of the top 5 leasing companies by the volume of leasing portfolio), a diversified leasing company and an industry leader in the aircraft and water transport leasing sectors.

**Product:** bilateral loan

**Amount:** RUB 6 bn (up to EUR 75 mln)

**Tenor:** 7 years

**Purpose of financing:** development of sanitary and small aviation, improvement of transport accessibility in the remote Russian regions. Leasing the L-410 aircrafts (the Czech Republic) and the helicopters Mi-8 and Kazan Ansat.

This project is a vivid example of integration transactions, since it involves the import of high-tech equipment from one member country of the Bank to other member countries, shareholders of IIB.





## Trade Finance

The total amount of the transactions issued under the IIB Trade Finance Support Program (TFSP) exceeded EUR 240 mln, of which more than EUR 150 mln was due to the operations carried out in 2018. IIB, as a multilateral development institution, continued implementing training initiatives under TFSP in the reported period.

The delegation of IIB took part in the 41st Annual Meeting of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) held in New Delhi, India, on February 20–22, 2018. The Head of the IIB Trade Finance Division acted as an expert at one of the forum's discussion sessions – 'Trade Finance: Building Resilient Trade Finance Architecture'. Its participants discussed topical issues related to the activities of multilateral development banks in the field of trade finance, including the introduction of Basel III guidelines.

IIB organized the Trade Finance Specialist Training Program to assist the member states' banks in creating new trade finance products and introducing them to the market in September 2018. A representative of Bogd Bank LLC (Mongolia) became the first participant of this program.

IIB executed its pilot training event for banks titled 'Trade Windows. Banks' at Česká spořitelna a.s. in Prague in November 2018.

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

- IIB advised its first letter of credit issued by the Vietnamese VietinBank in favour of the Russian exporter for the first time.



## Long-Term Borrowings

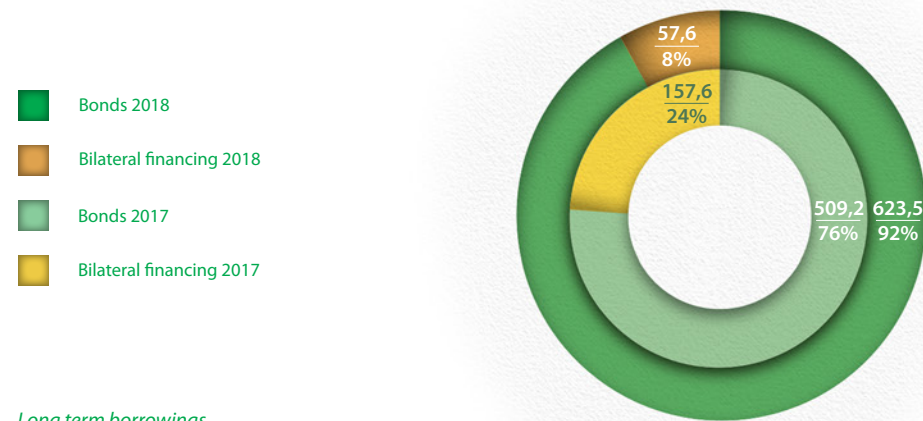
The Bank's total long-term borrowings amounted to EUR 681,1 mln, including EUR 623,5 mln in placed bonds and EUR 57,6 mln long-term bilateral financing at the end of 2018.

IIB executed its debut CZK denominated private placement transaction with a 3-year maturity note for CZK 501 mln in 2018. The placement had a dual listing on both Prague and Vienna Stock Exchanges for the first time for an IIB bond. Interest rate was set at 3m PRIBOR + 55 bps p.a. The book was well diversified with 9 investors from 4 countries. In June a tap to the transaction for CZK 249 mln was executed at a tighter interest rate of 3m PRIBOR + 50 bps p.a. This tap increased the size of the deal to CZK 750 mln. The additional volume was also listed on both stock exchanges.

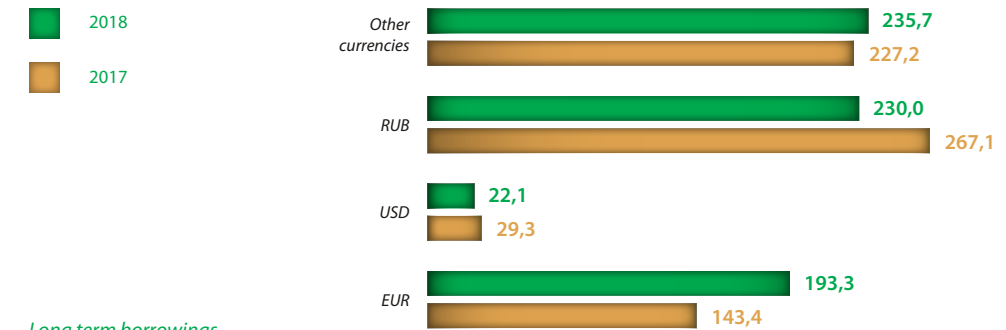
Despite volatile market conditions in Russia, IIB, exercising its put option, made a secondary placement of RUB 4 bn (EUR 55 mln) at 7,60% for 6 months in May 2018. The bonds were bought back in November.

Out of the USD 50 mln term loan facility from NDB, the first tranche of USD 12,5 mln was disbursed in March and the second tranche also for USD 12,5 mln was disbursed in July 2018.

In October IIB placed a new bond issue on the Bucharest Stock Exchange. The issue was the fourth in a row for IIB and the largest in terms of volume on the Romanian market. It was structured in 2 tranches – RON 300 mln and EUR 80 mln. The interest in bonds was shown by more than 30 investors from 9 countries. IIB reduced spread for the RON tranche by 10 bps and for the EUR tranche by 25 bps compared to the 2017 deal.



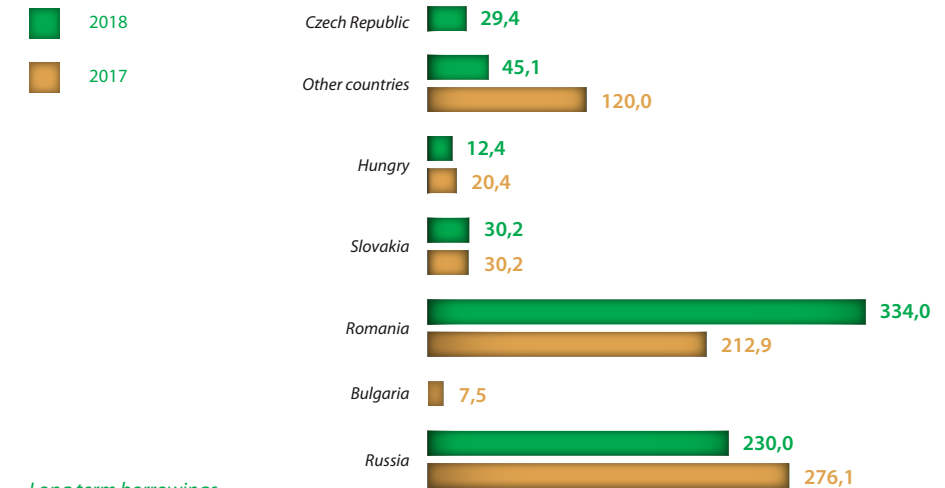
Long term borrowings by instruments (EUR mln)



Long term borrowings by currency (EUR mln)

	2017	2018
Avg. Balance EUR Interest Rate*	1,63%	1,37%
Avg. New Funding EUR Interest Rate*	1,20%	1,07%
EU share of Funding	52%	59%
Nr. of geographies	11	12

Average EUR interest rates and diversification



Long term borrowings by country (EUR mln)

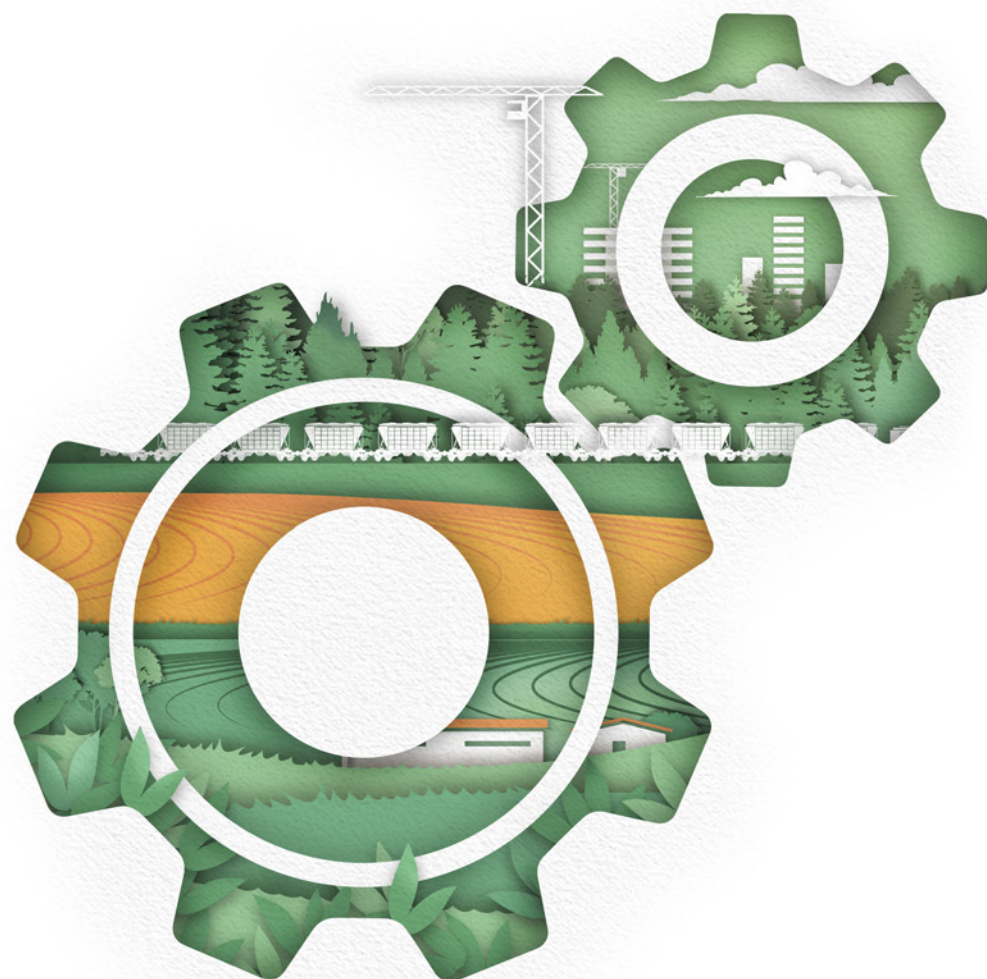
\* Based on the exchange rates as of the dates of respective transactions

EUR 137,3 mln of long-term instruments was repaid during the reporting period.

The Bucharest Stock Exchange (BSE) yet again recognized the significant contribution of International Investment Bank to the development of the Romanian capital market. As the result of its activities in 2018, the Bank was awarded in one of the most reputable nominations – ‘Consistency in issuing bonds on the Romanian capital market’. This has already been the fifth award of this nature received by IIB for its remarkable contribution that ensures the dynamic progress of the Romanian financial market. The Bank also received a recognition as ‘The first Euro-denominated bond issuance on the Bucharest stock exchange’ in 2018.

The structure of the long-term borrowings has changed, share of the issued bonds increased up to 92% of raised funding at the end of the year (77% on December 31, 2017). Long-term funds were well diversified by countries, currencies and investors, and this was one of the drivers for the positive rating actions towards IIB.

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 mln. The Fund of Funds is expected to mobilize at least around EUR 200 mln in equity investments into start-ups and small mid-caps. The share of IIB amounts to EUR 10 mln.

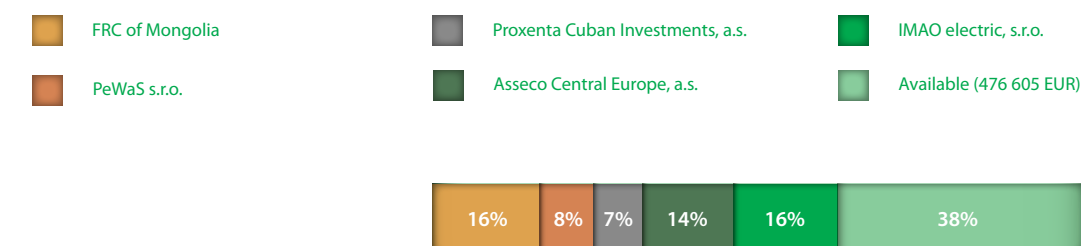


# Technical Assistance Fund

## About

The main purpose of the Technical Assistance Fund (TAF) is to finance the 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. TAF was established at the initiative of the Ministry of Finance of the Slovak Republic in 2016.



Initial fund size: EUR 1 245 000

A significant increase in the Fund operational activity was registered in 2018.

## Ongoing projects

<b>Client:</b> PeWaS s.r.o.	<b>Country:</b> Vietnam
<b>Consultant:</b> PEDAL Consulting s.r.o.	<b>Budget:</b> EUR 104 900

**Project description:** the goal of the project is to test two innovative Aquaholder™ products of PeWaS s.r.o. in Vietnamese conditions. The project has a significant development effect. It is aimed at the potential mitigation of drought hazard in Vietnam. The project started in October 2018 and is scheduled to be completed in June 2019.

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

**Project description:** the goal of the project is to provide technical expertise including: (1) verifying the assumptions of the project preparation and implementation; (2) obtaining knowledge about the market conditions, legal environment, risks, and regulation in Cuba; and (3) developing relevant project documentation. The project started in October 2018 and is expected to be completed in February 2019.

<b>Client:</b> Asseco Central Europe, a.s.	<b>Country:</b> Vietnam
<b>Consultant:</b> Aspiro, a.s.	<b>Budget:</b> EUR 174 160

**Project description:** the goal of the project is to assist Asseco Central Europe, a.s. in replacing the street lighting of Hanoi with a smart and energy efficient system through a shared savings scheme. The project started in September 2018 and is expected to be completed by the middle of 2019.

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

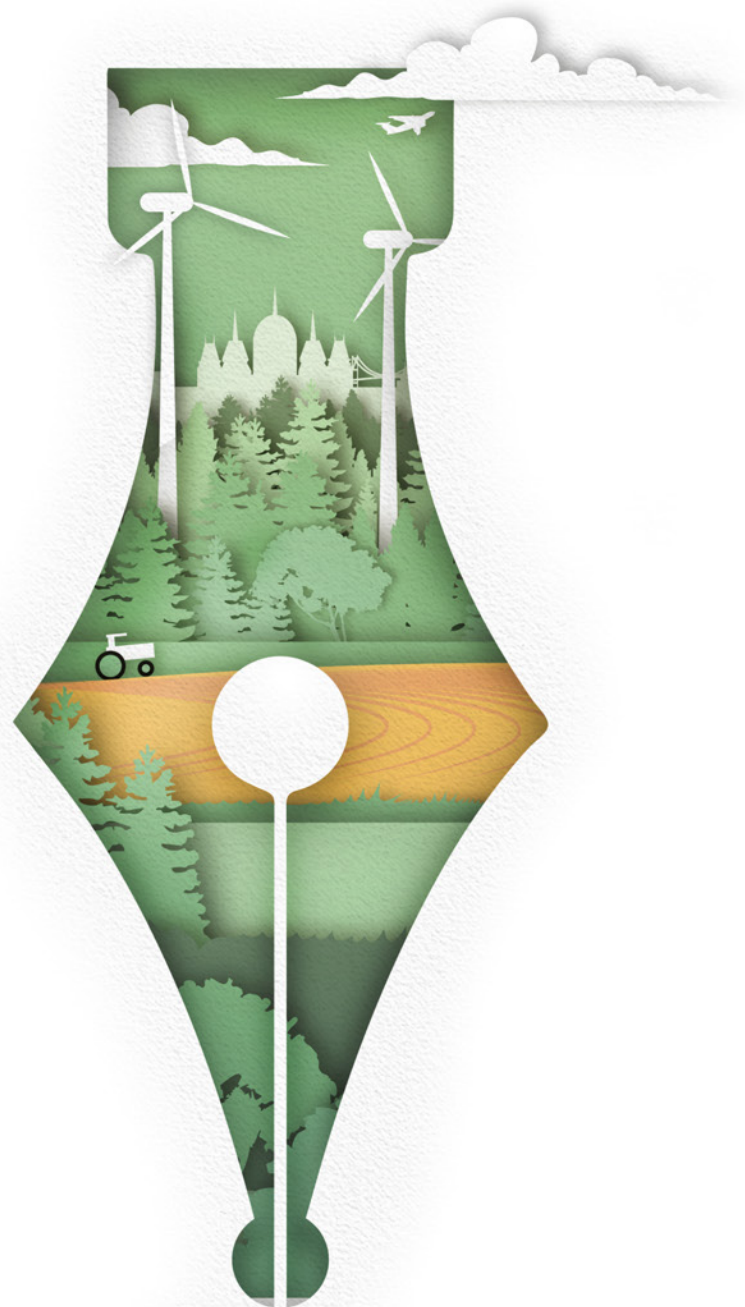
**Project description:** the goal of the project is to provide the client with the necessary expertise related to opening and developing of biomass power plants using agriculture waste in the Thừa Thiên-Huế province of Vietnam, with a potential further nationwide scale-up. The project started in February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

## Completed projects

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

**Project description:** The consultant performed in-depth analysis of the existing Mongolian legal framework in the 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 started in December 2017 and was completed in August 2018.



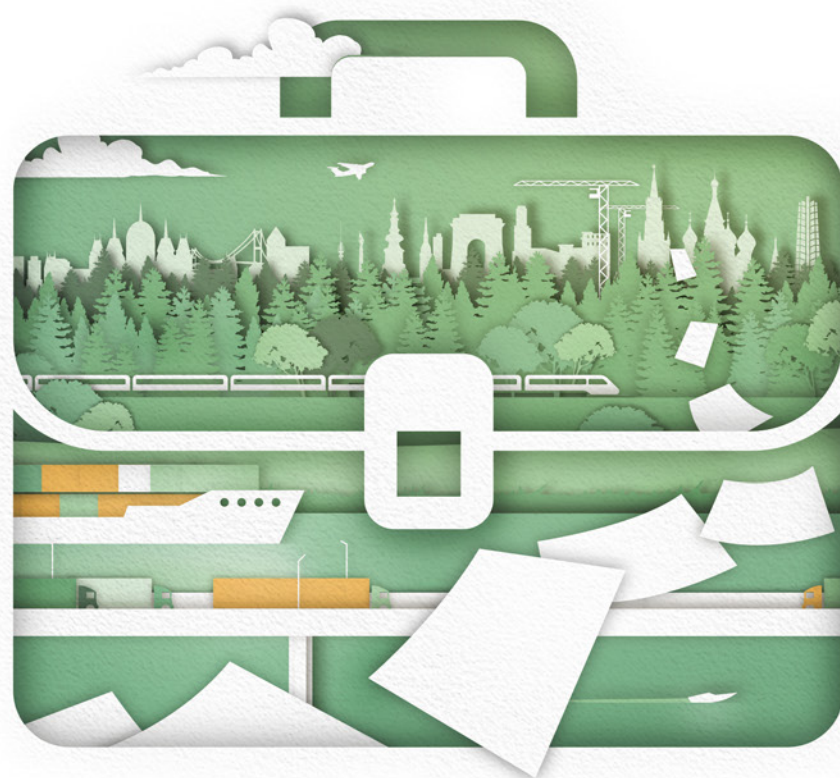


## Risk Management

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:

- fine-tuning of IFRS 9 (in operational mode) continued: parameters and process calibration, P/L forecast and volatility management, automation, validation methodology project (scope for 2019: development of the validation framework as per the IFRS 9 best practices);
- Early Warning System: 2nd phase (interaction procedures, selection, and implementation of external data/news searching tool; establishing the prototype of consolidated EWS database), increased operational flexibility and responsiveness (next steps: automation, industry differentiation, first steps in exploring possibilities of AI and FinTech);
- Capital Adequacy Measurement/Management: further evolution of Basel CAR calculation methodology (testing elements IRB-F approach for credit risk, implementation of Credit Valuation Adjustment and Counterparty Credit Risk for derivatives), improving Project Priority Score technique (automatic calculation);
- stress testing technology was improved by the Bank, the results indicated the Bank's ability to sustain severe external shocks (worst case scenario replicated the 2008–2009 financial crisis); capital buffers diminishing confirmed; importance of the efforts for further strengthening of the Bank's capital base underlined.

The IIB's success in developing its risk management system in accordance with the best international practices and standards has been repeatedly noted by the international rating agencies as a positive factor and ground for further credit rating upgrades.

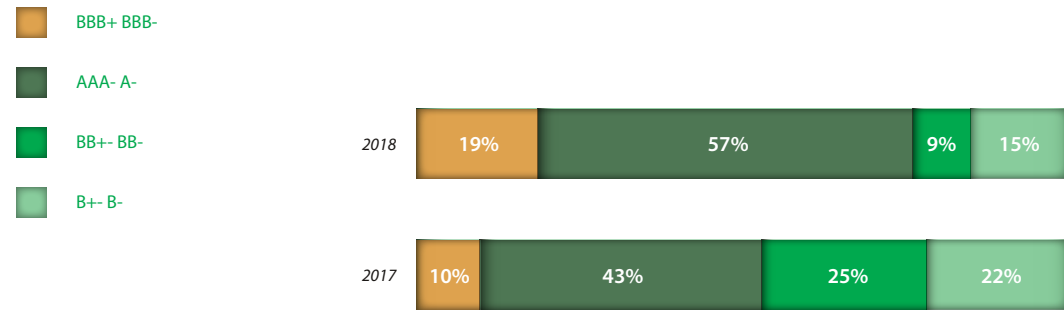


## Treasury Operations

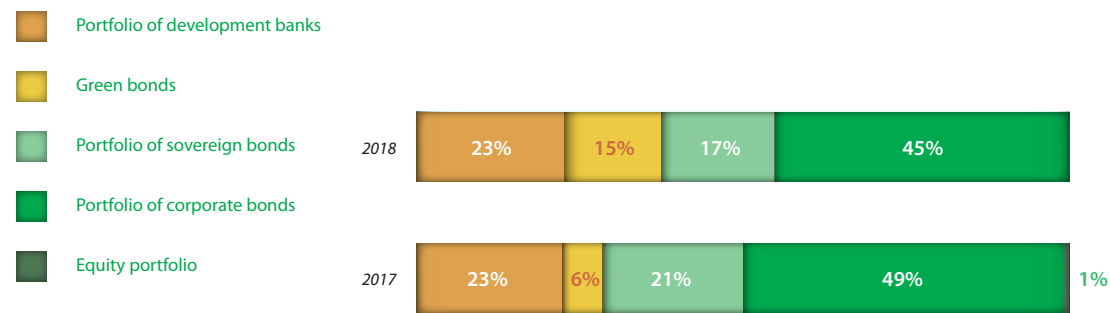
The Bank introduced the 'treasury rule' in the beginning of 2018 thus reducing excess pressure on capital by increasing investments in high-quality treasury assets.

During the reporting period the Treasury managed to:

- maintain a high and stable interest income on assets under management;
- significantly improve assets quality: the share of assets of the highest credit quality (AAA–A-rating groups) was 57% (+ 14% YoY);
- the weighted average assets managed by the Treasury amounted to EUR 323 mln, with a yield of 3,3% of return by the end of 2018. The weighted average securities portfolio amounted to EUR 226 mln with a yield of 4,1%;
- the interest income on the treasury operations amounted to EUR 8,3 mln by the end of 2018;
- the net income from trading investment securities available for sale amounted to EUR 2,4 mln.



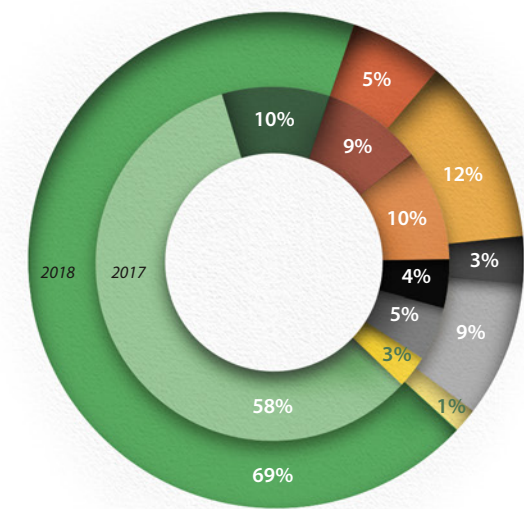
Treasury portfolio by issuer rating



Securities portfolio segmentation



Treasure assets by country 2017 vs 2018





## Human Resources

The average number of the Bank's personnel amounted to 120 professionals in 2018 (compared to 129 in 2017).

IIB is aimed at the formation of a highly professional team, thus candidate selection is based on competence, in-depth experience in relevant sectors, international experience and educational background. The Bank is guided by the principles of a balanced composition in terms of gender, age and nationality. Since its establishment in 1970, the Bank's team has always been composed of multinational professionals. News on the Headquarters relocation to Budapest increased interest of potential candidates.

At the same time IIB pays special attention to maintaining the 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 is developing the IIB internship program in close cooperation with the universities and colleges of the member states in order to conclude cooperation agreements and attract students and graduates for internship in IIB.

There is a work in progress on internal HR documents and processes updating in connection with a three-tier corporate governance structure implementation and decision on the Headquarters relocation.

There is a high-quality international team currently working at the Bank with specialists from nine different countries.



## Information Technology

The IIB IT infrastructure currently consists of 113 IT services, including 8 complex integrated systems distributed in 2 data centers (Russia and Slovakia). The Bank launched an automated risk management system Finastra FusionRisk, which let complete automation of the key banking processes in the past year.

High standards of automation allow to form financial statements and reports as quickly and accurately as possible: the annual reports for 2018 were fully prepared and sent to the auditor during the first 3 working days of 2019.

The IIB IT processes 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.



## Compliance & Internal Control

- IIB updated and strengthened its AML/CFT policy and internal procedures. The AML/CFT questionnaires were amended to obtain comprehensive information on the Bank's clients, their owners/shareholders and ultimate beneficial owners.
- Methodology on conducting Country Compliance Risk Assessment and calculating Compliance Risk Level Score was developed and implemented in the decision-making process to gain a better understanding of the risks inherent to high-risk jurisdictions where the Bank is not yet represented.
- IIB updated its Code of Conduct which encapsulated guiding principles of the employees' ethical conduct and clarified the ways to respond to the Code of Conduct violations.
- Following the best practices of IFIs, IIB issued the Annual Compliance report for the second time and published it on the Bank's website.
- IIB continued its professional interaction with international organizations (the Bank hosted annual conference 'Managing Compliance Risks in Development Financial Institutions: Multilateral and National Experiences' in October, and participated in OECD Anti-corruption Network working group in July and December of the reported year).



# 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 IIB's operations could be called the Bank's accession to the United Nations Global Compact\*. The IIB took the voluntary commitment to comply with the 10 fundamental principles of the UN initiative, related to the protection of human rights, labor, environment, and anti-corruption measures, in March 2014. Simultaneously, the Bank approved the Corporate Social Responsibility Policy. The current version of the document was adopted in 2016.

The IIB policy on corporate social responsibility is aimed to support responsible social and business practices, responsible environmental management practices and responsible labor practices. IIB intends to conduct its business:

- by relying on the principles of accountability and transparency;
- through ensuring the ethical behavior of its employees;
- through maintaining a dialogue with stakeholders;
- through observing the human rights.

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.

\*The UN Global Compact is the world's largest corporate social responsibility initiative: 9,200 companies and organizations from 166 countries acceded to it

The Bank strives for its activities in member states, primarily the efforts to support the SME sector, enable the implementation of national programs for social and economic development, reducing the scale of poverty and supporting socially vulnerable population groups, creating jobs, including for persons with disabilities, improving and rehabilitating labor conditions, protecting the rights of employees, developing human potential, securing gender equality, and protecting motherhood and childhood.

In this respect, IIB endeavors to build its project portfolio based on the targeted search and selection of projects capable of ensuring additional social effect in the form of social and economic benefits for concerned population groups, including:

- projects for creating new highly-efficient and safe jobs, including those for people with disabilities;
- projects related to the development of the social infrastructure and improvement of local public access to basic services and support to socially vulnerable population groups;
- projects encouraging the development of HR potential.

### 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.

Further development of methodology and policies with regards to environmental and social effect of the investment projects commenced in 2018 and will continue in 2019. This includes adoption of own environmental standards (common practice of IFIs), publishing data on development criteria of the existing loan portfolio for investors and partners, as well as setting up sustainability criteria for the new projects in alignment with the Sustainable Development Goals adopted by the United Nations.



### IIB Provides Support for Sustainable Development and Environmental Protection

In 2018 the Bank continued to provide support to the projects in member states aimed at environmental protection in general and water preservation and sanitation, in particular. IIB plans to continue carrying out these activities throughout 2019.

#### Funds allocated in 2018:

##### EUR 40 000 - Wetlands International

Continuation of the program 'Restoring Peatlands in Russia'.

Ten million hectares of peatlands drained for various uses in the European part of Russia, have become, to a large extent, abandoned due to recent economic changes. The peat fires around Moscow covered less than 500 hectares in summer of 2010, but produced more smoke than many thousands of hectares of forest fires and thus became the main cause of the significant public health and economic impacts. 'Restoring Peatlands in Russia' project has been working with the local, national and international partners to address these problems since 2011.



##### MNT 100 mln (EUR 39 000) - The Mongolian Academy of Sciences

The works related to studies and restoration of the wetlands of the upper creek of the Tuula Gol river flowing in the central region of the country through the city of Ulan Bator.

The aim of the project is to study the current state of wetlands in the area, bio- and ecosystems, identify main causes of degradation of the wetlands and assess the risks of deepening processes, which negatively influence the ecosystem. Afterwards a scientifically based plan is to be developed for restoration of the wetlands in order to prevent fires, reduce greenhouse gas emissions, preserve water resources and biological diversity, as well as create conditions for the rational use of these territories.





## Green office concept

The Bank continued to promote green office principles in its activities in the reporting year. In this regard, IIB performed the following:

- introduced print management system, analyzed the needs of each department and gave recommendations on further optimization of paper usage;
- transferred certain documentary processes into electronic form;
- stopped using plastic cups in common areas except for conference rooms, promoted 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 abovementioned measures have shown high effectiveness. The Bank purchased 815 packs of paper in 2018, which is 21% less than it was in 2017. 1 470 kg of archive documents and wastepaper was transferred to disposal and recycling. The Bank has a contract with the printing office that uses recycled paper. IIB seeks to further reduce paper consumption and promote respect towards nature and environmental awareness among the personnel. Therefore, the Bank continues to actively encourage printing on both sides of paper and usage of mobile workplaces and electronic devices.

The Bank promotes rational use of resources. The energy consumption rose by 4,2% in the reporting year. The heat consumption in the IIB's complex of buildings totaled 9 136,5 Gcal, i.e. 2,9% higher compared to 2017, while the water consumption (cold water supply) amounted to 29 270 m<sup>3</sup>, which is 24% lower than in 2017. The drop in water consumption occurred due to vacation of the leased space in the Bank's complex of buildings by a number of lessees. The lack of similar decrease in heat and energy consumption stemmed from the characteristics of the Bank's equipment.

# Contact information

[www.iib.int](http://www.iib.int)

## IIB Headquarters

Budapest, Vaci ut 188, H-1138,  
Hungary  
Tel: +36 1 727 88 88  
E-mail: [mail@iibbank.com](mailto:mail@iibbank.com)

## Moscow Branch

7 Mashi Poryvaevoy street,  
Moscow 107078, Russian Federation  
Tel: +7 495 604 7300  
E-mail: [mail@iibbank.com](mailto:mail@iibbank.com)

## Corporate lending

Tel: +7 495 604 7537  
E-mail: [credit@iibbank.com](mailto:credit@iibbank.com)

## Financial institutions

Tel: +7 495 604 7600 / 7601  
E-mail: [fi@iibbank.com](mailto:fi@iibbank.com)

## Treasury

Tel: +7 495 604 7610  
E-mail: [treasury@iibbank.com](mailto:treasury@iibbank.com)

## Investor relations

Tel: +7 495 604 7600  
E-mail: [ir@iibbank.com](mailto:ir@iibbank.com)

## Public and media relations

Tel: +7 495 604 7512  
E-mail: [press@iibbank.com](mailto:press@iibbank.com)

