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external users

DEVELOPMENT STRATEGY OF THE INTERNATIONAL INVESTMENT BANK FOR 2018–2022

Growing for Greater Development Impact

2017

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1. Introduction

About five years have passed since the 98th meeting of the Council of the International Investment Bank (November 2012, Moscow) at which the Bank’s member countries unanimously approved the IIB’s modernisation concept. Over that time, the Council, the Board and the team of the Bank have carried out fundamental work on comprehensive restructuring, thus implementing to a large extent the IIB’s Development Strategy for 2013–2017. Thanks to the efforts undertaken, the Bank has not only successfully overcome negative trends and left behind many years of stagnation, but has also resumed concerted efforts on behalf of shareholders, delivering strong growth of assets, the loan portfolio and other key performance indicators. Most of the targets and range of actions aimed at stabilising the status and development of the Bank were successfully achieved.

The 2013–2017 Strategy was of marked anti-crisis nature, many of its measures were targeted, while the growth reported at that time was mainly attributable to the low base effect and relatively favorable external conditions at the initial stage of its implementation. The momentum gained by the Bank through the “relaunch” has gradually weakened. The situation is also complicated by rising financial, economic, and geopolitical risks, both of global and national nature.

Going forward, the Bank’s development priorities require new goals to be set, the achievement of which ensure not only maintenance of the results heretofore achieved, but also transition towards sustainable growth. These guidelines are necessary both for the next five-year period (2018–2022) and over a longer horizon (until end 2032).

The main goal of the Strategy by end 2022 is to double assets while the Bank transforms into an advanced, rapidly expanding and financially sustainable multilateral development institution, as well as a recognised player on markets in target geographical areas with a significant role to play for its shareholders and key partners.

The Strategy sets forth the targets, tasks, tools and resources which are required to reach this goal and frame the Bank’s strategic vision from a long-term perspective (until 2032). The document provides for two main stages: Stage 1 (2018–2019), the purpose of which is to accumulate independent resources and capabilities, and Stage 2 (2020–2022), during which the Bank plans to gain additional impulse for growth through potential paid-in capital increase subject to a separate decision to be taken by the Board of Governors of the Bank.

For this reason, the Bank’s Board, with fundamental support from shareholders, and in close coordination with them, prepared this Development Strategy of the International Investment Bank for 2018–2022 based on the Strategic Vision approved by the Council in December 2016.

2. The Bank’s Mission, Vision and Long-Term Priorities

The IIB’s 2018–2022 Development Strategy hinges on the need to further adapt the mission, vision and long-term priorities of the institution to the current interest and needs of its member states, while remaining oriented toward external counterparties and investors.

Mission

Over the past decades, the Bank's main mission was ***“to provide loans on commercial principles in order to execute joint investment projects and development programmes in the Bank’s member states and also to develop their national economies*”.**

Under fundamentally different political and global economic conditions, the IIB’s mission requires fine-tuning. Nonetheless, the Bank retains its focus on tasks related to promoting economic growth, raising the competitiveness of national economies, expanding trade relations, and supporting investment in the interests of member states.

As a result, the Bank sees its renewed mission as that of ***“facilitating connectivity and integration between the economies of the Bank’s member states in order to ensure sustainable and inclusive growth, competitiveness of national economies, backed by the existing historical ties”***.

Vision by End 2022

By the end of 2022, the IIB aims to:

- become an acclaimed niche lending institution capable of executing medium-sized projects to promote the development of the national economies of member states.

- put forward a recognisable value proposition on the markets of member states, play a prominent role in supporting financial transactions both between them and third countries, which includes funding export/import operations and investment.

- run a partnership network in each member state on the basis of long-term mutually advantageous relationships;

- achieve long-term financial sustainability;

- demonstrate sustainable profitability through its core activity;

By the end of 2022 the Bank will have laid the groundwork for its long-term priorities related to the two subsequent cycles of strategic planning until the end of 2032.

Long-Term Priorities Until End 2032

By the end of 2032 the Bank should become:

- a medium-sized development bank in its target geographical areas with a broad product and service offering;

- a full-fledged player in member states and in the global community of international development institutions;

- a major platform providing financial, foreign trade and investment ties between member states and their companies;

- an attractive strategic investment target;

- a respected and attractive employer for banking and finance professionals;

3. Analysis of the Current State and External Environment

3.1. Main Achievements of the IIB’s 2013–2017 Development Strategy

Before the end of 2017, the Bank managed not only to overcome a period of stagnation, but also reached considerable success in virtually all areas of its core activity, thus laying the basis for transition to the following strategic stage of its development.

3.1.1. Qualitative Transformations

- Assignment of investment grade ratings with a Stable outlook from leading international rating agencies – Fitch Ratings (BBB), Moody’s Investors Service (Baa1), Standard&Poor‘s (BBB), and also from the Chinese agency Dagong (A)[1];

- Building an advanced risk management, assets\liabilities management and compliance control system;
- Expanding the Bank's product offering through direct funding, intermediated financing, trade financing products and bank guarantees, including target support programmes;
- Coordination with and approval by all shareholders on the amendments made to the IIB's founding documents and phasing in a three-tier corporate management system;
- Building a qualitatively new organisational structure based on best international practices;
- Restoring Hungary's membership with the IIB, and opening a European Regional Office in the Slovak Republic;
- Increasing the Bank's recognition in the reference group of development institutions and on international markets as a whole;
- Issuing bonds in member states, both in euros and national currencies;
- Introducing IT systems that meet advanced requirements: a new automated banking system (ABS), a customer relationship management (CRM) system, an electronic document management (EDM) system, and automation of key business processes;
- Implementing corporate social responsibility (CSR) principles;
- Assigning non-core activity related to management of the real estate assets owned by the Bank to its subsidiary IIB Capital.

3.1.2. Growth of core indicators

- During the implementation period of the IIB's Development Strategy from 2013 until 2017, the Bank's assets have grown almost 2.5-fold, reaching EUR 881 mn at end of 2016.
- As regards support for priority sectors of the economy of member states, loan agreements were signed for a total of about EUR 670 mn (over EUR 650 mn was allocated). The total value of SME support projects under intermediated financing totaled about EUR 200 mn, of which over EUR 170 mn was allocated.
- In line with implementation of a decision of the 99th meeting of the IIB Council (June 2013), the paid-in authorized capital of the Bank was increased (by EUR 31.7 mn and EUR 76.1 mn through retained earnings from previous years). An additional EUR 40 mn paid-in capital increase resulted from Hungary entering the Bank's authorised capital.

3.1.3. Socio-economic effect from the Bank's activity

As part of the 2013–2017 Strategy, the Bank's core area of activity aimed to facilitate socio-economic development of member states, including: SMEs, export/import, agriculture, manufacturing, infrastructure projects, alternative energy / energy-saving technology and environmental protection.

3.2. Forecast for Macroeconomic Development in the Main Regions Where the Bank has a Footprint

At the stage when this document was drafted, the Bank estimated the outlook for growth of the global economy until 2021 in the range of 3.4–3.8% depending on expectations for the pace of recovery in leading developed and emerging economies around the world. Negative risks for

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[1] Rating data are shown as of 01 June 2017.

expansion of the global economy include the possibility that some countries could shift toward protectionism, tougher than expected global financial conditions, rising geopolitical tension and a sharper slowdown in growth of the Chinese economy.

Eurozone growth is estimated in the range of 1.5-1.6%, whereas the growth forecast for the EU as a whole ranges from 1.7 to 1.8%. In the long term, the potential intensification of populist and protectionist tendencies could exert a negative impact on the political future of the EU. Brexit, as well as the political and economic disparity caused by this movement, could also give rise to protectionist trends in other countries and hinder globalisation processes.

The outlook for the macroeconomic and geopolitical environment is estimated by the Bank in the aggregate across the main geographic areas where the Bank has a footprint, i.e. Central and East Europe, the Russian Federation, East and South-East Asia, Latin America, and the Caribbean:

As a result, the Bank's main external challenges as part of the Strategy are:

- Low pace of economic growth in a number of its target regions of presence;
- Fierce competition on the medium-term lending market;
- A limited number of bankable development projects and lucrative projects in general;
- Low interest rate level in a number of member states;
- Investor sentiment and behavior depend on price trends for tradable commodities;
- Fluctuations between the Bank's main operating currencies.

Nonetheless, the economic forecast for the Bank's member states is positive, although GDP growth for most of them is expected to take place amid a budget deficit[2].

3.3. SWOT Analysis

SWOT analysis performed by the Bank in tandem with external consultants makes it possible to identify key strengths and weaknesses, as well as opportunities and threats that were taken into account when the new Strategy was prepared.

Strengths	Weaknesses
• Multilateral institution status and the ability to operate in various jurisdictions and various currencies; • Historical economic relations between the Bank's shareholders; • A small number of member states, which means a high weight of each shareholder in the decision-making process; • A footprint in three of the world's macro-regions; • Investment credit ratings from Fitch, Moody's, S&P, and Dagong (China); • Individual approach to customers when structuring deals;	• Relatively small size of assets, which limits the ability to independently implement large projects; • Dependence of the Bank's growth on the size of its paid-in capital; • Relatively low credit rating of a number of member states, which impacts the cost of raising funds; • Relatively high cost of attracting and lending funds compared to competitors; • Insufficient recognition among the business community and governmental agencies of IIB member states; • High transaction costs due to operations in multiple jurisdictions.

[2] GDP forecast – based on International Monetary Fund (IMF) data

• A scalable operating platform built on an efficient organisational model with high level of automation, efficient risk management and compliance control systems; • A flexible system for participation in the Bank’s activities, including via special statuses.	
Opportunities	**Threats**
• Raise the Bank’s role in arranging of co-financing; • Increase the proportion of development projects in the portfolio; • Participate in large projects and provide long-term financing; • Expand the available range of products and services, (for example, investment funds and advisory services); • Expand capabilities to raise funds on capital markets of the member states and other countries in order to lower the cost of funding and to diversify the investors’ base; • Provide funding in various currencies, including the national currencies of member states; • Further expansion of geographical presence, in particular by development of regional divisions; • Entry into the Bank of new shareholders, participation in its activity on the basis of special statuses; • Participation in state support programmes for priority sectors of the economy; • Attract target funding from other international financial institutions (IFIs) to be used subsequently for project financing; • Increase the Bank’s role in facilitating economic integration between member states; • Raise the IIB’s credit ratings.	• Limited growth potential and return to the period of stagnation due to an insufficient resource base; • Limited access to attract resources on financial markets due to exogenous factors; • Material political and economic changes in the countries where the Bank conducts operations; • Intensification of geopolitical risks; • Force majeure.

3.4. Comparative Analysis with the Reference Group of Multi-lateral Development Banks

In order to perform a more complete assessment of its development potential, the IIB jointly with the Word Bank conducted a comprehensive analysis with the reference development institutions.

Main conclusions:

- The Bank focuses on similar sectors and industries;
- The Bank has a similar range of products and services;
- The Bank runs a similar (centralised) operating model.

In addition:

- The Bank has lower credit ratings and, therefore, the cost of funding is higher compared to the reference group;
- The Bank's assets are smaller in size than the group average;
- The Bank does not have political agenda that is common to all member states.

This situation creates formidable challenges for the Bank that most international development institutions do not face:

- ensuring considerable growth of assets, including the resource base, in the medium-term, thus helping the Bank to achieve financial sustainability;
- necessity to compete in the segments with a large number of players, including international and national development banks, as well as large commercial banks;
- ensuring break even on transactions amid challenging market conditions and with limited support from shareholders.

3.5. Main conclusions

During implementation of the 2013–2017 anti-crisis Strategy the Bank completely overhauled its core activity, settled its existing debt, created a scalable operating platform and achieved positive financial results.

The key strategic challenge at this stage of development involves growing assets while preserving their high quality.

In the medium term, the reality of the external environment would appear to be rather unfavourable (low pace of economic growth, high competition on lending markets, low interest rates, decreased budget spending, and high market volatility). This situation is also complicated due to the specific national conditions of member states, as well as the diversity of their economic and political agendas.

Nonetheless, the IIB holds a large number of substantial comparative advantages, making the Bank confident about its success in implementing this Strategy (backed by historical economic ties, an effective operating platform, and flexibility in the decision-making process).

A fundamental specificity of the Bank compared to the peer reference group is the absence of a unifying political platform. For this reason, active shareholder support is a crucial component for Strategy implementation as regards:

- involvement in the implementation of the Strategy;
- engaging the Bank in the development programmes of member states, including national and municipal programmes;
- providing the Bank with necessary support, which includes promotion in national and international financial circles, as well as expansion of the existing partnership network;
- providing the Bank with the necessary resources, including financial resources.

4. Strategic Development Targets for 2018–2022

Taking into account macroeconomic forecasts for the target geographical areas, the high level of competition, and the need to significantly grow assets with limited support in terms of resources from the member states, the key development priority is to strengthen business orientation in the Bank's activity, as follows:

- Scaling up the Bank's footprint on the markets of member states, first and foremost through its loan portfolio, documentary and trade operations;
- Expanding the Bank's products and service offering;
- Enlarging the geographical scale of operations by entering new markets for the benefit of member states;
- Possible expansion of the current shareholder structure in order to broaden the geographical footprint of operations, the resource base, and the existing competencies.

This priority is being transformed into subsequent detailed strategic targets during the validity of this Strategy.

4.1. Becoming a significant development institution for the economies of member states

The Bank's significance for member states is defined by its competitive value proposition, which is tailor-made and relevant for each target geography. The IIB's value proposition will take into account the specific features of each market and its various segments/niches, including the competitive environment, and is based on its actual advantages in providing one or another product or service.

In line with the World Bank's analysis, the Bank's value proposition is underpinned by a multiple in the range of 2.5–3x, which is consistent under international practice with the average ratio between the investments of member states in the equity of development banks and the economic effect from their operations on member state markets.

4.1.1. Value Proposition

- Provide mid-term, long-term and equity financing for projects relevant for innovative development of the national economies of member states;
- Cover long-term risks in sectors that experience a shortage of financing from other sources due to challenging operating conditions, through a number of means, including guarantees;
- Allocate direct financing / coverage of target risks for financial institutions in member countries, including in the area of trade financing;
- Joint financing of long-term investment projects in collaboration with national development banks and IFIs;
- Finance mid-term and long-term investment projects to be implemented both by players from member states beyond their borders, and by foreign investors in the territory of member states;
- Financing of export/import operations between the Bank's member countries and also between member countries and third countries.
- Provision of Advisory Services and Technical Assistance.

4.1.2. Target client segments

Target client segments include:

- Mid-sized companies with annual revenue ranging from EUR 30 to 100 mn;
- SMEs with a turnover of up to EUR 30 mn - intermediated financing via national financial

institutions;

- Large companies with revenue exceeding EUR 100 mn or infrastructure projects - syndicated financing or joint financing with other players;
- National financial institutions, including those that operate in the area of trade financing.

Priority industries and sectors

- Energy (including small-scale and renewable power generation);
- Machine engineering and technology;
- Agriculture and food production;
- Transport and logistics;
- Biotechnology;
- Pharmaceuticals and medicine;
- The financial sector (including SME support).

Main Criteria for Selecting Target Projects:

- Location in the territory or close business ties with one or several member states;
- Projects aimed at facilitating economic and social integration of member states (export/import, exchange of experience and technology);
- Companies engaged in foreign trade activity (exporters/importers);
- Manufacturing enterprises with high added value of production;
- Infrastructure and social projects;
- High-tech companies, innovation and modernisation projects;

4.1.3. Competitive Product and Service Offering

- Mid-term and long-term project financing, including cross-border transactions;
- Mid-term and long-term syndicated financing, participation and/or initiation;
- Special-purpose intermediated financing through partner banks aimed at SME sector development;
- Financing export/import operations, including in collaboration with export credit agencies and export/import banks;
- Financing of trade operations (including trade related loans);
- Providing mezzanine financing, subordinated loans;
- Rendering advisory services, including those related to specific deals;
- Financing public-private partnerships;
- Engaging in equity financing.

4.1.4. Compliance with the Development Mission Through Project Selection

- Development of cooperation and integration assistance;
- Assessment of the socio-economic and multiplier effect from financed projects;
- Evaluation of the impact from projects carried out on the environment and society;
- New job creation, improvement of employment conditions, raising the standard of living and developing human potential;
- Development of social infrastructure and improvement of the population’s access to basic

services, including education, health care, energy supply, housing and utilities, and transport;

- Positive environmental impact including the reduction of harmful atmospheric emissions, renewable energy, power and water conservation and more efficient use of natural resources;

4.2. Assisting the economic integration of member states

4.2.1. The Bank as an integration platform for economic and trade relations

In its activities, the IIB leverages historical economic ties between member states and strives to develop economic integration. The Bank should become a platform capable of carrying out foreign economic activity between member states and their partners in a wide range of areas.

As part of projects with an external economic component, an important role is assigned to joint operations with regional development institutions, as well as leading trade platforms.

4.2.2. International Positioning

In order to raise its status in the international financial community, and also promote itself in the business environment, in target geographical areas, the Bank intends to strengthen its operations in the following areas:

- Conduct in-house public events aimed at assisting the economic development of the member states and participants with special status;
- Sponsor events, initiatives and programmes;
- Release regular IIB research and information materials (opinion maker, expertise delivery, and market expert).

The IIB will continue to develop relations with chambers of industry and commerce, export associations and other business associations, as well as state authorities and institutions, including trade missions, embassies, export support institutions and specialised intergovernmental committees.

The Bank will continue its practice of holding open meetings of the IIB Council, international business forums in member states, “IIB Days”, regular meetings of the Club of Ambassadors of the IIB’s Member States, send business missions to countries, and run special events for the participants of foreign economic activity and potential investors at the Bank’s headquarters.

4.3. Raising Long-Term Financial Sustainability

Achieving financial sustainability is a key requisite for successful functioning and development of the Bank not only during the implementation of this Strategy, but also in a longer-term perspective. In line with this strategic task, the Bank intends to considerably strengthen activities in the following areas:

4.3.1. Development of Financial Control

- Monitoring the profitability of the Bank’s operations;
- Providing sufficient returns with a reasonable risk level;
- Forecasting the Bank’s short-term development horizon and taking corrective decisions based on the forecast data;
- Regularly identifying the key factors affecting the Bank’s financial standing.

4.3.2. Expansion of the Resource Base

Based on the development forecast for its loan portfolio, the Bank plans to accrue liabilities while seeking guidance from the following principles:

- Ensuring the diversification of loan portfolio;
- Raising funds for longer terms while lowering the cost;
- IIB's bond issues on member state national markets (Bulgaria, the Czech Republic, Hungary, Vietnam and Mongolia);
- Increasing the number of counterparties and investors;
- Broadening the range of fundraising tools;
- Solidifying the Banks's reputation as a trustworthy and transparent partner;
- Issuing a debut Eurobond with the minimum required volume of EUR 300 mn.

4.3.3. Have the Bank's international credit rating upgraded to A- or higher.

The Bank aims to be assigned at least an A- rating from an international rating agency, primarily by executing the following tasks:

- Growth and diversification of its loan portfolio;
- Monitoring and management of the level of troubled assets;
- Diversification and enhancement of the quality of its treasury portfolio;
- Control over capital adequacy, financial leverage and risk profile.

4.4. Reaching Beyond the IIB's 'Historical Space'

A strategic vector for the Bank's development is to expand the IIB's historical footprint by drawing in new participants. The principal objectives of admitting new members are:

- Gaining access to new markets and clients;
- Obtaining new financial resources and other forms of support;
- Growth of assets and the loan portfolio;
- Gaining professional skills and expertise;
- Improving Bank's credit ratings;
- Ensuring complementarity of new and existing members.

In the process of admitting new members, the Bank will be guided by a number of principles:

The principle of rationality

- Expansion is not an end in itself and is not of formal nature;
- The decision to attract each new party must have the proper financial and economic justification, taking into account the current and future financial status of the IIB and to be made taking into account all pros and cons of potential expansion;
- The expansion should meet the interests of the Bank's members – favor further development of the IIB and the economies of its member states;
- Potential candidate shares Bank's mission, vision and mandate.

The principle of multi-tier (multi-option) participation

- Participation in the Bank's activity may be carried out in various formats: full-fledged membership and special status;
- The ability to select the most suitable level of rights and obligations will make it possible to expand the circle of potential participants of the expansion process.

The principle of multi-speed participation

- A party with assigned special status in the Bank with the consent of current shareholders may raise the level of its participation up to full-fledged membership.

5. Specification of Value Proposition for Member States

The markets of the Bank's member states vary in terms of GDP performance, growth forecasts, and fundamental economic drivers. Consequently, the Bank's value proposition will be tailor-made for each target geographical area. Thus, the key components of the value proposition may be summarized as follows:

- Provide direct financing and bank guarantees both to financial institutions and real sector companies. The top priorities in this area will be the markets of Russia, Mongolia and Vietnam, as well as European countries on a selective basis (primarily Bulgaria and Romania);
- Provide intermediated financing on certain markets for the purpose of SME financing. The top priorities in this area will be the markets of Mongolia, Vietnam, Russia, and Cuba;
- Finance export/import deals with the participation of clients from member states. These deals may be structured in collaboration with export credit agencies, development banks and other players on national financial markets. The top priorities in this area are markets of the European region, mainly the Czech Republic, Slovakia, and Hungary;
- Provide trade financing and money market instruments to financial institutions of member states. This area may be successfully rolled out for all member states.
- The target size of the various transactions ranges from EUR 10 to 20 mn (the lower threshold being EUR 5 mn, while the upper threshold is EUR 100 mn pending approval by the Bank's Board of Governors);
- Loans will also be allocated in the national currencies of member states, mainly to finance projects not related to the receipt of export revenue. The top priority markets for financing in national currency are Hungary, Vietnam, Russia and Romania. By 2022 the share of financing to be provided in national currencies of member states could rise to 20–25%.

On the basis of a detailed study of the markets of member states and multilateral consultations performed for each of them, the Bank's target value proposition for the various markets is set forth below for each country.

5.1. Bulgaria

The main drivers will be personal consumption and export of goods and services, mainly to neighboring countries. Growth of Bulgaria's banking market will outpace GDP expansion, mainly on the strength of retail business. The corporate loan market will remain liquid and competitive, while the share of the five leading players will exceed 50% of total assets.

Based on the results of the analysis performed for the Bulgarian market, it would be advisable to make the following value proposition:

- **Target sectors:** energy, machine engineering, chemicals/petrochemicals, pharmaceuticals, agriculture/food industry, textile industry;
- **Target client segments include:**
    - The main focus is mid-sized enterprises with annual revenue ranging from EUR 10 mn to EUR 100 mn (project financing, joint financing with other players, risk-taking through issuing bank guarantees);

  - Small enterprises with revenue up to EUR 10 mn (intermediated financing through partner financial institutions);
  - Large enterprises with revenue exceeding EUR 100 mn – on an individual basis (participation in syndicates, co-financing);
  - Financial institutions as part of approved limits for trade financing and money market instruments.

- **Promising areas of development:** equity financing and providing advisory services for deals.
- **Market coverage**
  - ERO (a special employee is expected to be placed in charge of operations in the Bulgarian market);
  - National development finance institutions (BDB, BAEZ);
  - Leading commercial banks;
  - International development banks (BSTDB, EIB, EBRD);
  - Client divisions in the Bank's headquarters.

5.2. Hungary

The main growth drivers are domestic consumption and exports of goods and services, mainly to EU countries. The Hungarian banking market is developed and highly competitive with a strong presence of international players.

The following value proposition looks advisable given the surplus of liquidity and low interest rates in the Hungarian market:

- **Target sectors:** machine engineering, electronics, auto parts, agriculture, health industry, food processing, infrastructure, medical machinery.
- **Target client segments include:**
  - The main focus is mid-sized enterprises with annual revenue ranging from EUR 10 mn to EUR 100 mn (project financing, investment financing, joint financing with other players, and risk-taking through issuing bank guarantees);
  - Large enterprises with revenue exceeding EUR 100 mn – on an individual basis (participation in syndicates, co-financing, export transactions), in particular as part of the government programme to develop the national economy;
  - Financial institutions as part of approved limits for trade financing and money market instruments.

- **Promising areas of development:** equity financing (in tandem with IFIs and equity funds) and providing advisory services for deals.
- **Market coverage:**
  - ERO;
  - National development finance institutions (MFB, EXIM);
  - Leading commercial banks;
  - International development institutions (EIB, EBRD);
  - Client divisions in the Bank's headquarters.

5.3. Romania

The main drivers are domestic consumption, as well as exports of goods and services, mainly to EU countries. On the banking market, Romania sees a predominance of international players with access to low-cost funding.

The following value proposition looks advisable given the liquidity surplus and low interest rates on the Romanian market:

- **Target sectors:** industrial production, chemicals and petrochemicals, energy, food industry, and agriculture.
- **Target client segments include:**
    - The main focus is mid-sized enterprises with annual revenues ranging from EUR 10 mn to EUR 50 mn (project financing, investment financing, joint financing with other players, and risk-taking through issuing bank guarantees);
    - Large enterprises with revenue exceeding EUR 50 mn – on an individual basis (participation in syndicates, co-financing, and export transactions), in particular as part of the government program to develop the national economy;
    - Financial institutions as part of approved limits for trade financing and money market instruments.

- **Promising areas of development:** equity financing (in tandem with the government investment fund) and providing advisory services for deals, including on the municipal level; Financing can also be provided in local currency.
- **Market coverage**
    - ERO (a special employee is to be placed in charge of operations in the Romanian market);
    - National development finance institutions (EXIM);
    - Leading commercial banks;
    - International development institutions (EIB, EBRD);
    - Client divisions in the Bank’s headquarters.

5.4. The Slovak Republic

The main growth drivers are exports of goods and services, mainly automotive products to EU countries, and domestic consumption. The banking market of Slovakia is developed and highly competitive with the preponderance of international players.

The following value proposition looks advisable given the liquidity surplus and low interest rates on the Slovakian market:

- **Target sectors:** automotive, production of auto parts, engineering, industrial production, agriculture, food industry.
- **Target client segments include:**
    - The main focus is mid-sized enterprises with revenue ranging from EUR 10 mn to EUR 100 mn (project financing, investment financing, joint financing with other players, and risk-taking through issuing bank guarantees);
    - Large enterprises with revenue exceeding EUR 100 mn – on an individual basis (participation in syndicates, co-financing, and export transactions);
    - SME financing;
    - Financial institutions as part of approved limits for trade financing and money market instruments.

- **Promising areas of development:** equity financing (in tandem with SZRB Asset Management) and providing advisory services for deals.
- **Market coverage**
    - ERO;
    - National development finance institutions (EXIM, SGDB);
    - Leading commercial banks;
    - International development institutions (EIB, EBRD, CEB);
    - Client divisions in the Bank’s headquarters.

5.5. The Czech Republic

The main growth drivers are export of goods and services, both to EU countries and new markets. The banking market of the Czech Republic is developed and highly competitive with a preponderance of international players and a high level of concentration.

The following value proposition looks advisable given the liquidity surplus and low interest rates in the market of the Czech Republic.

- **Target sectors:** machine engineering, industrial production, energy, chemical and petrochemicals industry, agriculture and the food industry
- **Target client segments include:**
    - The main focus is export companies (medium-sized and large – with revenue of EUR 30 mn or more). Target products: buyer`s credit, joint financing with export credit agencies and commercial banks, provision of guarantees for risk coverage;
    - On an individual basis: mid-sized enterprises with annual revenue ranging from EUR 10 to 50 mn (project financing, investment financing, joint financing with other players, and risk-taking through issuing bank guarantees);
    - Financial institutions as part of approved limits for trade financing and money market instruments.
- **Promising areas of development:** equity financing and providing advisory services for deals, mainly as part of export financing transactions.
- **Market coverage**
    - ERO;
    - National development finance institutions (EGAP, CEB);
    - Leading commercial banks;
    - Client divisions in the Bank’s headquarters.

5.6. The Russian Federation

The potential growth drivers are increased export revenue and state investments. State banks predominate on the banking market, whereas a number of large international players also hold strong positions in some sectors.

The following value proposition looks advisable given weak economic growth and strong competitive positions of a number of players in the Russian banking market:

- **Target sectors:** non-commodity export, machine engineering, energy, industrial production, chemical/petrochemicals, food industry, eco-friendly projects.
- **Target client segments include:**
    - The main focus is mid-sized enterprises with annual revenue ranging from EUR 30 mn to EUR 100 mn (project financing, investment financing, joint financing with other players, and risk-taking through issuing bank guarantees);
    - Large enterprises with revenue exceeding EUR 100 mn – on an individual basis (participation in syndicates, co-financing, and export transactions);
    - Financial institutions as part of approved limits for trade financing and money market instruments, as well as intermediated financing for SME support;
    - Companies that invest outside of Russia, in particular, in the Bank’s member states (project financing, investment financing, joint financing with other players, and risk-taking through issuing bank guarantees).
- **Promising areas of development:** equity financing and providing advisory services for deals, mainly as part of export financing transactions.
- **Market coverage**
    - Client divisions in the Bank’s headquarters;

  - National development finance institutions (VEB, Russian Export Center, Russian Direct Investment Fund);
  - Leading commercial banks (Sberbank, VTB);
  - IFIs (EBRD, EIB, NDB, AIIB etc).

5.7. The Socialist Republic of Vietnam

The main growth drivers are increasing domestic consumption, as well as export of goods and services, mainly to the Asian region. The investment inflow also exerts a strong impact on the national economy. The banking market of Vietnam features high liquidity and is highly competitive with a large number of international commercial banks and development institutions.

The following value proposition looks advisable for Vietnam based on the market analysis conducted:

- **Target sectors:** energy, agriculture, food production, processing, SME, export, technology, infrastructure, and supporting industries.
- **Target client segments include:**
  - The main focus is financial institutions (provision of short-term financing as a part of approved limits for trade financing and long-term financing for SME lending);
  - On a selective basis and together with local partners – mid-sized enterprises with annual revenue ranging between EUR 10 and EUR 50 mn (project financing, joint financing with other players, and risk-taking through issuing bank guarantees);
  - Large enterprises and infrastructure projects – on an individual basis and together with local partners (participation in syndicates, joint financing).
- **Promising areas of development:** providing advisory services for deals.
- **Market coverage**
  - National development finance institutions (VDB);
  - Leading commercial banks;
  - International development institutions (ADB, IFC);
  - Client divisions in the Bank’s headquarters;
  - Mid-term plans include engaging a local representative or opening a representative office.

5.8. Mongolia

The key drivers of the national economy are export of commodity goods and agricultural production. The Mongolian banking market is developed and shows a high degree of concentration (five leading national banks account for over 90% of the market).

The following value proposition looks advisable for the Mongolian market under the current economic conditions:

- **Target sectors:** mining, agriculture, food industry, banking sector, as well as energy, including renewable energy sources.
- **Target client segments include:**
  - Small companies with annual revenues up to EUR 5 mn (financing via partner financial institutions);
  - Mid-sized enterprises with annual revenue ranging from EUR 5 to EUR 50 mn (project financing, joint financing with other players, and risk-taking through issuing bank guarantees);
  - Large enterprises with revenue exceeding EUR 50 mn – on an individual basis (participation in syndicates, co-financing, and export transactions);

    - Financial institutions as part of approved limits for trade financing and money market instruments.

- **Promising areas of development:** equity financing (jointly with national players) and providing advisory services for deals
- **Market coverage**
    - National development finance institutions (DBM);
    - Leading commercial banks;
    - International development institutions (ADB, IFC, EBRD);
    - Client divisions in the Bank's headquarters;
    - Mid-term plans include engaging a local representative or opening a representative office.

5.9. The Republic of Cuba

The main growth drivers are the dynamic of state investments, as well as integration of the national economy into the world economy. Several state players hold a dominant position on the Cuban banking market.

The following value proposition looks advisable given the relatively early stage of development of the Cuban market for banking services.

- **Target sectors:** energy, industrial and transport infrastructure, processing, pharmaceuticals, food industry, and tourism.
- **Target client segments include:**
    - The main focus is financial institutions (provision of short-term and mid-term financing as part of approved limits);
    - On a selective basis and together with local partners – mid-sized enterprises with annual revenue ranging from EUR 10 to EUR 50 mn (project financing, joint investment financing with other players, and risk-taking through issuing bank guarantees);
    - Infrastructure projects – on an individual basis and together with local partners (participation in syndicates, co-financing).
- **Promising areas of development:** providing advisory services as part of export financing transactions.
- **Market coverage**
    - National financial institutions;
    - International development institutions (CAF);
    - Client divisions in the Bank's headquarters;
    - Mid-term plans include engaging a local representative or opening a representative office.

6. Prospective development areas

Prospective development areas of the Bank, which are relevant for all member states are:

- Development of promising business and functional areas
    - Equity investments
    - Advisory services (expert appraisal) and technical assistance
- Geographical expansion of operations
    - Entry into new geographical markets for the benefit of member states
    - Attracting new shareholders
- Development of integration IT platform

6.1. Promising Business and Functional Areas

6.1.1. Equity investments

Based on the positive feedback received during the country missions, as well as on the conducted analysis, the Bank plans to engage in equity investments, including venture equity investments. The Bank believes that this product will benefit both potential clients in the member states and foster the Bank's strategic development. The Bank may offer this product independently or in collaboration with institutions with relevant expertise (national development funds or IFIs) in order to share financial risks and to gain the necessary competences. The total size of the IIB`s equity investments will be limited to 5–10% of the total loan portfolio.

The Bank will perform a detailed analysis on the possible options for equity investments and present its recommendation including an investment strategy to the member states for their final decision.

6.1.2. The Bank's Development Fund

In order to ensure additional value creation for the shareholders the Bank intends to set up a dedicated internal development fund. This Fund can be spent on various initiatives related to Strategy implementation (such as opening of new representative offices, IT projects, reconstruction of real estate etc). The Fund can be financed by Bank's own funds as well as by dedicated borrowings from the shareholders. The Board of Governors / Board of Directors will oversee spending of the Development Fund's resources.

6.1.3. Provision of Technical Assistance to Member States

In order to enhance the effect from provided funds, in the medium term the Bank plans to establish special-purpose technical assistance funds (TAFs).

The main task of these funds will be to provide grants to pay for advisory services in order to support business entities when structuring development projects. The funds may be formed both using the Bank's own resources and through resources borrowed from the IIB's member states and other countries, as well as international organisations and other financial and non-financial organisations, including EU institutions.

The activity of TAFs will be programme-based and take into account the requirement to reach strategic development goals at the level of the Bank's particular member states, as well as participants with a special status.

6.1.4. Provision of Advisory Services

The Bank will strive to expand its own competencies in the area of structuring integrated development projects, and regards this area as complementary to the direct provision of loan products. Nonetheless, in a number of cases, this service may be provided separately for the purpose of realization of the Bank's mission, for example, in projects on the regional and municipal level.

A separate advisory area will be provision of the respective services to other development institutions in the territory of IIB member states on the basis of expertise acquired by the Bank.

The provision of advisory services at the initial stage will be carried out by the Bank in collaboration with leading international and national advisory companies, thus making it possible to create a platform for independent work at later stages of development.

6.2. Entry into new geographical markets

New markets can be entered for the purpose of expanding the geographical footprint of activity and increasing the client base for the benefit of member states. Interest in these areas is driven by export/import operations between member countries, their companies and third country markets. The preferred method of operating in third country markets involves risk-sharing, mainly with national export credit agencies, development banks and IFIs, including existing successful experience in executing such transactions.

6.2.1. Attracting new shareholders

New shareholders can be attracted both by expanding the number of full-fledged members and participants with special status.

Increasing the number of full-fledged members would allow the Bank to enter primarily new markets, thereby continuing to diversify its portfolio and raise the size of paid-in capital.

As priority candidates for full-fledged membership, the Bank primarily considers rapidly expanding and politically stable medium-sized and small countries (which are comparable in terms of their potential with most of the current member states), whose membership in the IIB would not cause considerable imbalance in its capital structure.

6.2.2. Participation in IIB activity by way of special status

The Bank is also exploring the possibility of expanding the number of participants by offering special statutes to states, international financial organizations, as well as other banking, economic, financial organizations and funds.

Special status is designed to include three levels depending on the scope of rights and obligations:

- Associated member status;
- Associated partner status;
- Observer status (without any financial obligations)

The regulation of principles, mechanisms and the procedure for countries and organisations to participate in the Bank's activities on the basis of special status, and also to determine the rights and obligations for each category of participation is formalised in the «Regulation on Special Status of Participation in the Activities of the International Investment Bank» (approved by the Protocol of the 106th Council meeting dated 9 December 2016).

6.3. Development of integration IT platform

In order to enhance the integration effect for member states and create a practical tool for expanding economic collaboration, the Bank plans to create an information platform on the basis of its website. The subjects of foreign trade activity from member states, primarily those interested in expanding export/import operations and implementing investment projects in other countries, will post structured information on their products / propositions / projects with the aim of searching for partners in the territory of other IIB member states.

The Bank plans to promote this platform among the entrepreneurial community of member states in collaboration with chambers of trade and commerce, national promotion agencies and other major players in the respective economic space. In this way, the platform should become an information resource where counterparties interested in collaboration and joint projects can meet. The platform could become a valuable source of potential deals for the Bank and an important source for receiving information about target geographical areas.

7. The Operating Model, Including Priority Areas for its Development

The Bank's target operating model is geared toward effective implementation of the Strategy, in particular its business component:

- required coverage of the target geography, including effective collaboration with partners in the respective markets on a long-term basis;
- a deep understanding of customer needs through specialisation of relationship managers on the basis of geography, industries, and client segments;
- prompt response to customer requests by raising the efficiency of the Bank's in-house business processes and their maximum automation (reducing the time frame for decision making on deals);
- effective risk management and compliance control, which ensures the proper quality of the loan portfolio and the client base.

In addition, the structure and principles for building the Bank's target operating model hinge on the best practices of international development institutions:

- centralized decision-making on lending and investments on the basis of uniform databases, financial and statistical models and existing expertise;
- decentralised organisation of the front office, making it possible to stay close to the customer and understand local business features;
- centralised operating support of front office divisions on the basis of standardised and automated processes.

Thus, the key components of the Bank's target operating model are:

- A decentralised front office, consisting of:

- The Customer Relations Department, located at the Bank's Moscow headquarters;
- The European Regional Office, which is located in Bratislava and geared towards operations with the markets of European member states;
- At a later stage – local representative offices or representatives in charge of the search for clients and strategic marketing in certain geographical areas.

- Centralised management functions and support in the Bank's Moscow headquarters, especially as regards:

- The Bank's overall management;
- Strategic analysis and development;
- Risk management and compliance control;
- Treasury and debt market management;
- Management of finances, assets and liabilities;
- Operational support;
- IT;
- Personnel management.

The Bank intends to achieve continuous progress in order to constantly improve the efficiency of its operating model.

7.1. Raising the efficiency of front office operations

Front office divisions are crucial in implementing the Bank's mission, while the effective organisation of their operations, aimed at enhancing productivity and results, is one of the key objectives of this strategy. In the course of this work, the following best international practices will be introduced:

- annual planning of disbursements (in terms of countries, regions and client groups) on the basis of preliminary analysis;
- wide use of the partnership network to attract clients on the basis of long-term relations;
- an internal and external evaluation of productivity to determine potential areas for improvement;
- use recommendations from existing customers to attract new clients.

7.2. Development of the ERO as the IIB`s coverage platform for the European region

The IIB's European Regional Office (ERO) in Slovakia has proven to be an effective tool in expanding the Bank's operations in European territory.

The main tasks of the ERO are as follows:

- collect information on the current needs of the member states, areas that are a priority for the member states, and also on relevant national and pan-European support programmes;
- establish and maintain business relations with representatives of IIB member state delegations, the relevant ministries, agencies, as well as national and international development institutions, and financial organisations of member states;
- participate in working out products and services that the Bank provides in EU countries;
- take part in operations aimed at providing financing and attracting resources;
- ensure that the Bank is represented at business events and forums, while cooperation is maintained with research institutes and universities.

If and when the proper scope of operations is achieved, the ERO's role may be expanded and its functions could be supplemented with the following competencies:

- perform an initial assessment of the financial status of a borrower in the language of the IIB member state taking into account the sufficient level of expertise in national legislation and direct communication with potential clients;
- approve the preliminary terms and the structure of deals;
- engage independent advisors (if necessary);
- conduct market research;
- conduct an expert appraisal of collateral.

7.3. Credit Process Optimisation

A key task in enhancing the efficiency of the Bank's operations is to optimise the credit process in order to reduce the time frame for decision making, strengthen flexibility when responding to customer requests and raise the loan portfolio quality. The following best international practices are to be introduced:

- Analyze the various steps in the credit process with the aim of determining their expediency and optimisation opportunities;
- Conduct external benchmarking to determine the optimal duration of the various steps;

- Analyze the number of participants in the process and their contribution to ensuring the quality of loan decision;
- Analyze the associated processes in order to determine the potential for possible optimisation;
- An analysis of the documents used and their formats.

The purpose of these initiatives should be to reduce the time frame of the credit process, and also, if possible, to decrease the number of participants and documents used. If properly optimised, the credit process could give the Bank a real competitive advantage compared to other IFIs, and possibly some commercial players.

7.4 Transition to a Three-Tier Corporate Management System

With the completion of ratification of the Protocol Amending the Agreement Establishing the International Investment Bank and its Charter, dated 8 May 2014, the Bank concurrently began to restructure corporate management and internal business processes phasing in ways and means for subsequent monitoring and evaluation.

As part of the transition to the new three-tier corporate management system, it is crucial to gradually adapt the existing business processes without affecting the Bank's day-to-day operations.

The Bank expects the change in current business processes and an update of the regulatory framework to be completed during first stage of Strategy implementation amid a new decision-making system for the Bank's management bodies and the appearance of a new body – the Board of Directors.

As part of the gradual transition to a bilingual system, the bank plans to translate all of its key business processes into English and to make a regular evaluation of other business processes as and when required.

Extending functions of the European Regional Office (ERO) will require changes in the Bank's current business processes both as regards its core banking activity and in executing control and monitoring as well as budgeting and planning.

Operations of IIB Capital will be rolled out depending on the Bank's needs that arise from services provided to the Bank's headquarters and also from other competencies related to this subsidiary.

7.5 Improving Treasury Portfolio and Asset Liability Management

The Treasury will adhere to a conservative short-term liquidity management policy, while improving the geographical diversification of investments to ensure effective treasury portfolio management in order to achieve and maintain liquidity and treasury asset quality at levels that are commensurate with the Bank's strategic targets and tasks.

Dealing in short-term interbank deposits and securities, the Treasury will take into account the need both to maintain returns on assets under management and find other investment opportunities through participation in new bond issues.

In terms of improving treasury operations, the key objectives are:

- ensuring that the treasury portfolio is managed effectively;
- diversifying the treasury portfolio;
- monitoring money and securities markets, day-to-day monitoring of market risks;
- searching for alternative investment opportunities.

In terms of asset liability management, the top priorities are:

- managing the aggregate balance sheet in a coordinated manner;
- improving and preventing imbalance in the structure of assets and liabilities;
- mitigating financial risks associated with the balance sheet structure.

Developing New Instruments and Enhancing Infrastructure

Working in tandem with regulatory agencies and market makers, the Bank will continue to expand the list of available funding instruments, in particular, by implementing universal bond programmes, placing additional issues and using multi-currency borrowing tools.

The IIB will expand its participation in development of stock market infrastructure in member states in order to make the local markets more attractive both for issuers and for investors. The Bank will also improve collaboration with European clearing platforms (Euroclear, Clearstream) in order to enhance the cooperation of these organisations with local depositaries and stock exchanges on issues related to accepting securities for servicing, interest in which has been shown by investors from neighboring states.

To enhance the appeal of bonds placed on local markets of EU member states, the Bank will strive to cooperate more actively with the European Central Bank so that such bonds can be included in the Lombard List and securities can be approved as collateral for repo operations.

Increasing Trend Investments and Bond Investments

Within the framework of investing in bonds issued by companies from member states on both primary and secondary markets, the priority areas to develop are:

- investing in sovereign and corporate bonds of the Bank’s member states;
- investing in infrastructure bonds and instruments;
- investing in green bonds and instruments aimed at developing eco-friendly technology related to sustainable use of resources and energy efficiency improvements, trading in quotas for greenhouse gas emissions and trading in Green Certificates.

7.6 Risk Management

The Bank will continue improving the risk management framework and enhance its integration across all governance levels, while gradually involving employees in risk management processes.

In enhancing its risk management framework, the IIB seeks to develop a risk-sensitive toolset for a more accurate assessment of all risk elements as well as to implement approaches allowing for a risk-reward assessment.

In terms of credit risk, the Bank will create a comprehensive system for the development, collection, analysis and evaluation of early warning signals in order to identify signs of deterioration in a client's credit standing and take the appropriate measures.

To enhance effectiveness of non-performing loans management the Bank will strengthen the way it deals with NPLs, including through creation of dedicated unit in charge.

The whole ecosystem of risk management will evolve in accordance with best industry practices and global trends. Its organisational, resource and infrastructure elements will correspond to the Bank's operating model.

The priority objectives are:

- implementing an economic capital system in order to determine the amount of equity needed to cover unforeseen losses;
- implementing a risk-adjusted pricing model;

- making a gradual transition to equity calculation under the Basel III capital adequacy requirements;
- creating and developing a process for identifying early warning signals of potential problems in order to establish a second line of defence prior to credit risk deterioration;
- implementing indicators of borrowers' corporate governance quality in order to assess additional project risks;
- switching to the IFRS 9 Standard;
- integrating automated risk management systems into the Bank's IT architecture.

7.7 Compliance Control

In terms of enhancing compliance control, the top priorities remain the identification and monitoring of the IIB's potential risks in:

- corruption and fraud;
- involvement in money laundering and financing terrorism;
- settling international sanctions;
- risks associated with misconduct of the Bank's employees.

The IIB will continue to cooperate with the financial community: in particular, the Bank plans to participate in regional and international groups that combat corruption and fraud, money laundering and financing terrorism (OECD, FATF, Transparency International, etc.).

Another key tool for boosting the efficiency of the compliance control system will be automated identification, evaluation and monitoring of unreliable counterparties, their transactions and associated risks, as well as educating the Bank's employees and checking their skills.

7.8 Internal Control

The Bank will continue to improve internal control and audit procedures in accordance with international standards. In view of growing operational volumes, expanding product lines and entry into new markets, the IIB will devote particular attention to analysing the risks incurred in the existing and newly developed business processes as well as to its risk monitoring and management systems.

7.9 Strategic Planning

In its strategic planning approach, the IIB draws on the best practices of other development institutions with due regard for its own situation shaped by historical factors, external and internal influences as well as the needs of its shareholders and core client groups.

The underlying principle of strategic planning is the Bank's long-term, namely 15-year, vision, split into five-year development strategies.

A five-year cycle includes:

1) Developing and phasing in a Strategy (to be started one year before Day 1 of its implementation);
2) Implementing the Strategy;
3) Monitoring the progress of the Strategy;
4) Adjusting the Strategy (when necessary).

Development of the Strategy takes up to 12 months before a new mid-term (five-year) strategy is adopted and includes the following stages:

- External and internal environments where the Bank operates, as well as interim results of the existing Strategy are reviewed. Based on that review, the Board (the Strategy

Committee) will formulate the Bank's development strategy Concept for the next five years and submit to the member states for consideration (may take up to 6 months);

- A complete set of Strategy documents will be prepared based on agreed Concept and submitted to the member states for approval (may take up to 6 months).

Phasing-in of the Strategy will take up to 6 months from the date on which the new Strategy is adopted (certain actions may be taken before it is adopted, but after the Strategic Vision is approved). The Strategy will be phased in according to a special Phase-in Plan to be designed by the Board (the Strategy Committee) and approved by the Board of Directors[3].

Implementation of the Strategy will include two stages (the first two years and the next three years), with certain objectives for each stage. Stage 1 (two-year) objectives will be focused primarily on the accumulation of new opportunities, resources and competencies (financial, organisational, functional, and technological) that are needed for the Bank to meet its strategic goals. Stage 2 (three-year) objectives will be focused on quality transformations that are required for the Banks to switch to the next Strategy.[4]

Monitoring of progress of the Strategy is intended to ensure that the Strategy is phased in and implemented in accordance with the Bank's strategic objectives and tasks as well as financial, regulatory and legal limitations.

Adjustments will be made to the Strategy based on the results of monitoring that is performed by the IIB's authorised management bodies and are intended to ensure that the Bank strives for excellence in implementing its strategic objectives and tasks.

Country strategies are aimed at narrowing the Bank's strategic priorities for each of the member states approved in this Strategy, taking into account their national priorities, economic environment, market features and the Bank's capabilities.

Country strategies will be developed in cooperation with each shareholder, delegations of member states, the relevant ministries and agencies, other governmental, non-governmental and financial institutions.

General approaches to country strategies are described in Section 5 of this document.

7.10 Evaluating Operational and Governance Efficiency

Building up a comprehensive evaluation system has the aim of providing information to shareholders and external users (albeit less detailed information) on efficiency of the Bank`s operations and their developmental impact on member states. The new comprehensive evaluation system will be implemented gradually in direct correlation with improvements in the Bank's operations and its needs.

The Bank plans that the activity of each management body will be subject to evaluation, paying particular attention to the efficiency of their decision-making at the top management level (the Board of Governors and the Board of Directors), the Management Board and collegiate executive bodies.

The Bank intends to work out a range of measures to enhance management quality such as a development system for the members of all the IIB's managing bodies (the Board of Governors, the Board of Directors and the Management Board), etc.

In implementing an internal self-evaluation system, the Bank is focused on recommendations of Independent Evaluation Group (IEG), with such a system to complement the existing mechanisms (Internal Control and the Audit Committee).

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[3] This Strategy will be approved by the Council.
[4] The content and objectives of these stages are applicable to this Strategy.

7.11 Human Resource Management

Human capital is one of the Bank's strategic resources. Thus, the human resource management framework will aim to transform the corporate culture with a focus on achieving the Bank's long-term goals based on approaches that cover both corporate objectives and standards and every employee's values and beliefs through continuous learning and change analysis, creating an effective governance framework. These will take into account the Bank's three-tier corporate governance system and performance management system that will be implemented, as well as improvements in the staff incentive system.

A key prerequisite for the success of the new Strategy is to build a professional and motivated team that understands and shares the Bank's goals and objectives.

Learning and Development

The Bank will implement principles of a self-educating entity, a philosophy of self-improvement and continuous professional and individual growth, team-building culture based on the extensive knowledge, skills and experience of all employees.

Organisational (group) education is expected to become the linchpin of the Bank's new staff learning and development system. Organisational education will result in the integration of skills and best international practices into the Bank's operations and the improvement in its procedures, requirements and standards.

Since leadership culture can help to quickly and efficiently achieve the established goals, special attention will be paid to stimulating leadership potential at all management levels.

The IIB will continue exchanging experience and knowledge with other IFIs and related business units, including on a secondment basis.

Personnel Performance Management

By 2022, the IIB plans to complete the transition to system-based performance management, limiting individual achievements and short-term operational success in favour of cross-functional and matrix cooperation.

The key tools of performance management will be:

- A balanced scorecard system, which is linked with the IIB`s operating model, taking into account financial performance, the external environment, internal processes, human resources and innovations;
- KPI-based management;
- Management by Objectives (MBO);
- Assessment of leadership styles and climate within teams;
- Assessment of subdivisions' performance standards;
- Assessment of personnel involvement.

Staff Incentive System

Improvements in staff incentives will be closely linked to implementing a performance management system and tailored to a 'total remuneration package' concept, which implies both material and intangible aspects and hinges on a weighted approach to the use of resources.

The Bank's staff incentive system will be aimed primarily at:

- creating an internal environment and organisational climate which should be instrumental in achieving stronger performance;

- recruiting and retaining the best experts on the international labour market by way of competitive salaries, substantial privileges and fringe benefits;
- introducing a flexible remuneration system, where the most efficient employees will be granted higher remuneration;
- introducing an adequate and transparent system of short-term variable remunerations correlated with the Bank's business goals and values and calculated on the basis of operational showings for a period (no longer than one year) – the incentive is aimed at improving key operating indicators;
- introducing a long-term incentive system designed to:
  - recruit talented managers;
  - retain key employees;
  - stimulate strategic thinking;
  - strike a balance between short-term goal achievement and sustainable development.
- providing competitive and flexible privileges and fringe benefits under the Bank's Targeted Social Programmes (TSPs) that take into account the staff's cultural and age differences, address staff and family health and recreation as well as professional development needs, provide social security in case of retirement (for both age and disability reasons);
- efficient staff cost management;
- implementing best international practices in the area of remuneration management aimed at forging the reputation of an internationally recognised attractive employer.

7.12 Information Technology Development

The top-priority goal is the automation and high efficiency of business processes aimed, inter alia, at efficient operations while expanding the Bank's geographical footprint:

- implementing an automated risk management system;
- implementing a Customer relationship management system (CRM);
- further automation of key business processes, e.g. treasury positions management;
- providing improved tools for remote workplace employees;
- working out and implementing tools for cooperation between the Bank's corporate management bodies;
- boosting the performance of the collegiate bodies;
- improving communication and cooperation tools;
- evaluation of the impact of potential implementation of blockchain technology;
- upgrading IT systems in order to reduce time lags to adapt to changes in the Bank's key banking platforms.

7.13 Developing Corporate Social Responsibility

During the Strategy implementation period, the IIB will continue to phase in its corporate social responsibility (CSR) standards in keeping with the UN Global Compact Principles.

7.14 Best Responsible Funding Practices

The Bank will continue the introduction of the best international responsible funding practices that will include:

- assessment of the environmental and social impact of investment projects;
- use of Independent Accountability Mechanism tools;
- publication of a non-financial report on the basis of Global Reporting Initiative (GRI) standards (2019).

The IIB will continue to participate in the UN Global Compact, including as part of local networks in a number of member states.

At the second stage of the Strategy's implementation (2020–2022), the Bank plans to join the UN Financial Initiative under its Environmental Protection Programme (UNEP FI) and in case there is a substantial share of project financing in the Bank's portfolio it will also join the Equator Principles.

Additionally, the Bank intends to arrange an ongoing exchange of experience in the area of responsible funding with leading IFIs as well as national development institutions from the member states and third countries involved.

7.15 Charity and Volunteer Services

The Bank will continue to steadily develop its charity and volunteer service projects with the following three priorities in mind:

- supporting environmental protection initiatives in member states;
- supporting education and sciences in member states;
- supporting preservation of cultural heritage in the IIB's member states.

The Bank intends to develop its partnership for environmental protection and projects to support architectural monuments and museums in the IIB's member states with the relevant funds, national and international organisations.

Furthermore, in its cooperation with educational institutions of member states with a focus on economics, the Bank will expand on the system level its short- and long-term student internship programmes in its business units. The Bank also plans to create an experience sharing system between the IIB's employees and universities.

7.16 Green Office Concept

The Bank will continue to work on introduction of the Green Office standards in its activities in accordance with the principles of responsible and sustainable development.

Modernization initiatives of existing building of the Bank will take advantage of advanced environmental standards applicable to materials and goods, equipment and technologies such as LEED and BREEAM. The Bank plans to assign this task to organisations specialising in the design and evaluation of concepts and solutions in the field of responsible environmental management of real estate and construction

8. Financial Modelling Results

<u>Target Scenario: Doubling Assets by 2022</u>

Indicator, EUR m, %	2018	2019	2020	2021	2022
Total assets	**1,139**	**1,240**	**1,373**	**1,526**	**1,707**
Total assets annual growth, %	12%	9%	11%	11%	12%
Total loans outstanding	**713**	**806**	**910**	**1,041**	**1,200**
- *direct loans*	321	363	409	468	540
- *syndicated loans*	356	403	455	521	600
- *trade-related loans*	36	40	45	52	60
Share of loan portfolio in total assets, %	63%	65%	66%	68%	70%
Loan portfolio annual growth, %	14%	13%	13%	14%	15%
Investments in funds and equity	25	30	35	40	50
Share of investment in equity in total assets, %	2%	2%	3%	3%	3%

NPL to Total Outstanding Loans, %	4.8%	5.3%	5.7%	6.1%	6.5%
CAR, %	**38%**	**36%**	**36%**	**35%**	**34%**
Tier 1 capital req.	0	0	33	33	33
Tier 2 capital req.	20	20	20	20	20
Net income	**2.2**	**2.7**	**3.4**	**4.4**	**5.5**
NIM after provisions	1.9%	1.8%	1.7%	1.6%	1.6%
Cost-to-Income Ratio	90%	89%	87%	84%	81%

Main conclusions

- Raising total assets to EUR 1.7 bn (in line with the target of doubling assets).
- Expanding the loan portfolio to EUR 1.2 bn, i. e. to 70% of the Bank's total assets by 2022.
- Cost-to-Income Ratio will gradually decrease to 81% due to growth of operations.
- Target growth of the Bank's loan portfolio may slow down due to an unfavorable external environment.

Product Diversification

Main lending instruments will be:

- direct financing provided by the Bank to target borrowers (~45 % of the total loan portfolio by 2022)
- participation in syndicated financing, and co-financing of projects in cooperation with other players (for example, development banks or commercial banks) and club deals (~50% of the total loan portfolio by 2022)
- trade-related loans (~5% of the total loan portfolio by 2022).

According to the Bank, such a target structure is also consistent with inquiries made by target customers in the markets where it operates. Depending on external conditions, the degree of competition and the growth rate of certain markets, the product portfolio may be restructured.

Country Diversification of the Loan Portfolio

When selecting a target diversification of loan portfolio, the Bank strives to make it balanced taking into account the level of credit risks and market returns in certain countries, and will consider support of export operations on behalf of European member states by financing projects in other countries (export finance, byer`s credit).

When determining target shares of the relevant countries, the following criteria were taken into account:

- Overall competitiveness of the Bank's offering in the relevant market given prevailing interest rates, liquidity and the level of competition (support of Hungary, Slovakia and Czech Republic generally reflected as financing of projects with participation of these countries in other member states and third countries);
- Potential returns in the relevant market taking into account the cost of funds and the required risk premium;

To maintain competitiveness of the offering of the Bank in case of unfavorable market conditions the IIB can apply to the member states or their financial institutions for funding on preferential terms.