INTERNATIONAL
INVESTMENT
BANK

Risk Management Strategy

2013

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I. GENERAL

1.1. The risk management strategy of the International Investment Bank (hereinafter, the "Bank") is aimed at complying with the principle of break-even activity by providing an optimal balance among acting as a Development Bank, yielding returns from the Bank's core activities, and taking risks.
1.2. The risk management strategy shall be approved by the Council and may be revised on an annual basis.
1.3. The Bank implements the strategy of both preventive and subsequent influence on risks by using a whole range of available tools to reduce risks, both at the portfolio level and at the level of individual transactions. Particular attention is paid at the same time to improving the risk management system, capital adequacy, and liquidity as potential sources for covering losses.
1.4. The primary element of the Bank's risk management strategy is the risk appetite determined by the Bank's Council based on the current and future risk profile. Monitoring and control with respect to the risk appetite and risk profile are part of the risk management system.
1.5. The results of the Bank's operations, taking into account risks and the effectiveness of the Bank's risk management, are evaluated by the Council on an annual basis.

II. RISK MANAGEMENT SYSTEM

2.1. The risk management system ("RMS") of the Bank is a system to ensure the timely and adequate identification of risks, provide the qualitative and quantitative evaluation, control, and monitoring of risks, and level off the effects of risk events.
2.2. Integrated into the whole vertical organizational structure of the Bank and all areas of the Bank's activities, the risk management system makes it possible to identify in a timely manner and effectively manage different types of risks.
2.3. The basic principles of the system's operation are described below:
2.3.1. Risk awareness. When making any decision on a transaction, it is mandatory to analyze potential risks and, after such transaction, take account of related risks and do subsequent their regular monitoring.
2.3.2. Independence of the risk management function. In order to avoid any conflict of interest, the Bank adheres to the principle of the independence of any risk-taking decision from risk assessment and risk control.
2.3.3. Risk level control. The Bank's management and the Bank's collegial bodies receive, on a regular basis, information on the accepted risk level and on violations of the established risk management procedures, limits, and restrictions.
2.3.4. "Three lines of defense." Risk management involves all of the Bank's divisions in the evaluation, taking, and control of risks:
2.3.4.1. Risk-taking (1st line of defense): the Bank's divisions directly preparing and conducting transactions, involved in the identification, assessment, and monitoring of risks, comply with internal regulations on risk management, and give due consideration to the risk level in the preparation of transactions;
2.3.4.2. Risk management (2nd line of defense): the credit risk management division responsible for risk management develops risk management tools and methodology, assesses and monitors the risk level, prepares reports on risks, carries out risk aggregation, and calculates the amount of total capital requirements;

2.3.4.3. Internal audit (3rd line of defense): independent quality evaluation for existing risk management processes, identification of violations, and proposals for the improvement of the risk management system.
2.3.5. Management of the Bank's activities, taking into account accepted risk. The Bank assesses capital adequacy and carries out capital planning based on the Bank's Development Strategy.
2.3.6. Limitations on accepted risks. The risk appetite is determined by the Council and replicated in the system of limits and restrictions, which ensures an acceptable level of risk on aggregate positions, the transparent distribution of the total limit risk among the Bank's areas of activities. The RMS ensures compliance with the Bank's risk appetite and limits.
2.3.7. Improvement of the risk management system. The Bank's risk management system is consistent with the development level of the Bank's operations and external conditions and innovations in global risk management practices.

III. RISK PROFILE

3.1. The Bank's risk profile is an aggregation of specific to the Bank's specific aspects of activities and its strategic goals and objectives determining the amount of risks taken by the Bank.
3.2. The Bank is an interstate organization established and existing under the Agreement on the Establishment of the International Investment Bank and its Statutes. The core activities of the Bank is to provide commercially oriented medium- and long-term loans for the implementation of joint investment projects and programs to finance the construction of national facilities in accordance with the Bank's Development Strategy.
3.3. The Bank's core activities are financed both from equity and from borrowings. The Bank may raise funds from international and domestic capital markets by obtaining financial loans, issuing bonds, issuing other securities, or otherwise.
3.4. The Bank operates in interbank and syndicated lending, provides loans for support for small and medium-sized enterprises, for the construction, expansion, modernization, rehabilitation, and technical upgrading of facilities, for research and development, for the introduction of new production processes, and for leasing operations.
3.5. The Bank's customers are corporate entities with any legal form of ownership that have the necessary legal capacity in accordance with their national laws and international organizations deemed as such in accordance with international law.
3.6. In view of the foregoing particularities, the Bank's risk profile is as follows:
3.6.1. The Bank is closely related to the general development concept for the national economies of Member Countries.
3.6.2. The Bank's strategic goals contribute to increased credit risk.
3.6.3. The Bank's core activities are active operations (credit and bank guarantees) associated with euro-denominated investment with medium- and long-term maturities.
3.6.4. The Bank's activities are regionally limited to the territories of the Bank's member states. Project financing for other countries is subject to approval by the Bank's Council.
3.6.5. The Bank conducts the following types of banking operations:

- Investment credit;
- Credit to finance day-to-day operations;
- Trade finance;
- Issuance of guarantees;

- Credit lines to finance small and medium-sized enterprises;
- Syndicated loans to banks of member states under SME support programs;
- Loans to banks of member states to finance investment projects;
- Syndicated loans to banks of member states to finance investment projects;
- Operations in financial markets;
- Deposit operations;
- Operations involving securities;
- Operations involving derivatives (only for hedging purposes).

IV. RISK CLASSIFICATION

The Bank classifies the risks inherent in the various areas of its activities under the following main groups:

4.1. Credit risk: the risk of the Bank's losses resulting from the nonperformance, untimely performance, or incomplete performance by the customer (counterparty) of its financial obligations to the Bank in accordance with the terms and conditions of the contract.

4.2. Market risk: the risk of the Bank's losses due to adverse changes in market conditions, namely changes in interest rates, exchange rates, and the value of equity instruments.

4.3. Operational risk: the risk of losses resulting from inadequate or incorrect internal processes or employees' acts and systems or from external events.

4.4. Liquidity risk: the risk of losses due to the Bank's inability to meet its obligations in full as a result of the imbalance of its financial assets and financial liabilities with respect to their maturities and amounts and/or the unforeseen need for the immediate and one-off fulfillment by the Bank of its financial obligations.

4.5. Reputation risk (reputational risk): the risk of losses due to a negative public opinion about the Bank's financial stability, its services, or the nature of its activities as a whole, which leads to a decrease in the number of customers (counterparties).

4.6. Legal risk: the risk of losses due to the nonperformance by the Bank with its agreements; legal errors in its operations (incorrect legal advice or incorrect documentation, including in court proceedings); imperfections in the legal system (contradictory legislation, the lack of legal regulations on particular issues that arise in the course of the Bank's activities).

V. RISK APPETITE

5.1. The risk appetite is the aggregate amount of risk taken by the Bank to achieve its strategic goals and objectives.

5.2. By approving the risk management strategy, the Bank's Council determines the willingness to take a risk (i.e. the risk appetite) or the amount of equity and liquidity that the Bank is willing to risk in the implementation of this strategy.

5.3. The procedure for determining the Bank's risk appetite shall be defined by the credit risk management division and submitted for review by the Board and approval by the Council of the Bank.

5.4. The risk appetite shall be approved by the Council of the Bank on an annual basis for the next year and shall be a major factor of the Bank's strategic limits determining the thresholds for the Bank's key performance indicators and the Bank's significant risks.

5.5. In determining the risk appetite, the Bank assesses how the specified risk appetite is acceptable in the current time period and how it will be acceptable in the future, taking into account:

- Expectations of the founders concerning the level of profitability;
- International regulatory standards;
- Current and expected future volume of transactions;
- Current and expected future structure of significant risks;
- Current and expected future level of aggregate capital.

5.6. Based on the risk appetite determined by the Council, the Board shall annually approve the Bank's limits, sublimits, and risk indicators, which shall not exceed the target values of the risk appetite.