

APPROVED
by Order of the International
Investment Bank
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TREASURY INVESTMENT POLICY STATEMENT
FOR THE YEAR 2013
(summary)

1. Objectives of the Treasury's 2013 Investment Policy Statement:

- implementation of the medium-term “IIB Development Strategy for the Years 2013 to 2017” (hereinafter referred to as “the IIB Development Strategy” or “the Strategy”), first and foremost, for the year 2013, as well as organization and preparation of conditions for holding scheduled activities and meeting performance indicators related to the development of the Bank for the entire Strategy implementation period;
- identification of requirements for the structuring and management of the Treasury's portfolios in the short term to gain planned income and minimize risks; and
- specification of the main principles of the Treasury's investment policy given the changes in the areas of the Bank's further development and specific features of the current environment in the financial markets and planned events for further development of the IIB.

2. Methodological Background for the Development of the Treasury's 2013 Investment Policy Statement:

2.1. The 2013 Investment Policy Statement has been developed with due account of the basic scenario of the “IIB Development Strategy”.

2.2. The 2013 Investment Policy Statement envisages newly distributed priorities in the Treasury's activities given the new tasks faced by the Bank and approved by the decision of the 98th meeting of the IIB Board.

2.3. The 2013 Investment Policy Statement has been developed with due account of the strong development in active operations as well as, for the first time, taking into account passive operations being conducted and a possible increase in their scope, particularly concerning raising short-term additional resources to support the Bank's liquidity at the established level.

3. Basic Principles of the Bank's Investment Policy for the Treasury

- continued concentration of the main part of the Treasury's assets in the developing markets of the IIB member states. UKO will continue purchasing securities of the IIB member states and expanding the placement of available funds with publicly owned banks as well as with development banks, given that the securities of the Bank's member states in the portfolio and the deposits placed with the banks of the IIB member states are considered to be investments in their national economies;

- the securities of the IIB member states will be the “core” of the securities portfolio for the years 2013 to 2017;
- active management of the treasury portfolios in line with the applicable risk indicators to ensure that the investment risk is reduced as a result of the proper diversification by asset, maturity, established modified duration of the securities portfolio, currency, and trade strategy used; and
- systemic and efficient management of the Bank's current liquidity to ensure that the level of yield from the operations in the financial markets is increased and the required resource base for the development of the Bank is in place.

4. Key Focus Areas of the Treasury for 2013

4.1. Active Operations

4.1.1. In respect of operations in the currency and money markets:

- depositing available funds with banks in which the state owns a controlling interest, with development banks of the IIB member countries, and with the counterparty banks of the IIB member states approved by the Bank's member states;
- depositing available funds with leading banking institutions having an investment rating assigned primarily by the IIB member states, subject to the risk indicators and limits established;
- depositing available funds with counterparty banks of the IIB member countries having a below-investment-grade rating which, however, is equal to or higher than group “B” according to “Standard & Poor’s”, “Moody’s”, or “Fitch Ratings”;
- increasing the deposit period to boost the profitability of deposit operations;
- conducting currency operations with the active management of the FCP and maintaining the same at a level equal to or below the limit established by the Board of the Bank for the FCP;
- expanding operations with derivative financial instruments (derivatives) solely to minimize the currency, market, and interest risks; and
- ensuring a balanced relationship between the periods and the volumes of the interbank deposits/credits placed with banks or any other financial institutions to ensure the Bank's current liquidity and acceptable profitability.

4.1.2. In respect of securities market operations:

- liquid, reliable, and profitable investment of the Bank's temporary available own funds in the securities issued primarily by the IIB member countries, subject to the risk indicators and limits established;

- subject to positive market trends, increasing the size of the securities portfolio to the maximum allowed limit to earn extra profit, provided that the risks are monitored and the established limits complied with;
- carrying out Reverse Repurchase transactions subject to securities with an investment rating or securities included in the Lombard list of the central banks of the IIB member states pledged as collateral;
- investing in any securities of issuers with an investment rating or in any municipal or corporate securities of issuers with an investment rating assigned by the Bank's member states or leading global companies, subject to the applicable risk indicators and limits;
- carrying out Repurchase REPO transactions to enable the raising of funds from financial markets to support and manage liquidity as well as for the additional funding of the lending activities to an amount of 30% or less of the current volume of the securities portfolio as of the transaction date and for a period of 12 months or less.

4.2. In respect of the management of the Bank's liquidity

- **gradually decreasing excess liquidity** against the background of the Bank's lending activities being stepped up and the limited access to any additional funding sources, with the amount of available funds managed by the Treasury and the profitability of the financial instruments decreasing accordingly;
- the Bank may incur considerable costs associated with the raising of funds from the capital markets or interbank markets before a credit rating is obtained, the issue of bad loans is resolved, and the financial reporting indicators are improved;
- the Bank's liquidity may be reduced to a level ensuring that available funds are preserved to ensure current liquidity.

4.3. Passive Operations

4.3.1. Passive operations are conducted on the basis of the following principles:

- mobilization of the Bank's resources and their utilization to achieve the purposes of the Bank's development;
- finding the best relation between risk and efficiency as well as between placed and raised resources; and
- on-going comparative analysis of financial risks and efficiency for passive and active operations.

4.3.2. To attract borrowed funds in the interbank market (including getting funds for trust management) to ensure the Bank's current liquidity and continuous current activities, the Treasury is planning to:

- develop relations with new potential creditor counterparties to open new limits for interbank debt financing;

- develop and approve an action plan to establish correspondent relations with new potential creditor counterparties; and
- develop, approve, and implement a plan of short-term borrowings, including setting limits, interest rates acceptable to the Bank, and conditions and forms of short-term borrowings from creditor counterparties.

5. Management Requirements for Portfolios of Treasury Investments:

The management of the treasury investment portfolios shall be subject to the following requirements:

- conducting all treasury operations on the basis of the principles of transparency and continuous monitoring, subject to all of the Bank's applicable regulatory documents and risk indicators and with the financial, operating, and business risks minimized;
- maintaining the liquidity level set by the IIB's Board for the assets under the management of the Treasury;
- changing the ratio of diverse assets in the treasury portfolios in line with the market conditions to ensure acceptable profitability of the Bank's investments and the required liquidity;
- restructuring the Treasury's portfolios on the basis of the macro-economic indicators of the financial markets being continuously analyzed;
- maintaining the average weighted modified duration of the securities portfolio at a level of 5.5 years or less.

6. Risk Assessment and Management for Treasury Operations

- The additional risks assumed by the Bank as a result of the new distribution of the priorities in the Bank's activities given the new tasks faced by the Bank and approved by the decision of the 98th meeting of the IIB's Board are related exclusively to operations with the counterparties from the IIB member countries;
- The additional risks are consistent with the risk management principles envisaged by the "IIB Development Strategy";
- The main risk profile of the Bank established by the regulatory documents is not changed and the moderately conservative approach to treasury operations is preserved;
- The Treasury has conditions in place for more efficient development of treasury operations and assumption of additional risks to increase the Bank's profitability.

7. New Types of Operations

- passive operations – attraction of short-term deposits;
- repurchase REPO transactions;

- Reverse Repurchase transactions subject to securities included in the Lombard list of the central banks of the IIB member states pledged as collateral;
- deposits/loans with/from the counterparty banks of the IIB member states approved by the Bank's member states;
- depositing available funds with the counterparty banks of the IIB member states having below-investment-grade ratings which, however, are equal to or higher than group "B" according to "Standard & Poor's", "Moody's", or "Fitch Ratings";
- operations with derivative financial instruments (derivatives) solely to minimize the currency, market, and interest risks.