

Report on Review of Interim Financial Information of  
**International Investment Bank and its subsidiary**  
for the six months ended 30 June 2020

*July 2020*

# **Report on Review of Interim Financial Information of International Investment Bank and its subsidiary**

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## Report on Review of Interim Financial Information

To the Board of Governors of International Investment Bank

### Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of International Investment Bank and its subsidiary, which comprise the interim consolidated statement of financial position as at 30 June 2020, the interim consolidated income statement, interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the six-month period then ended, and selected explanatory notes (interim financial information). Management of International Investment Bank is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

### Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, Interim Financial Reporting.



Nagyváradiné Szépfalvi Zsuzsanna  
Partner  
Ernst & Young Könyvvizsgáló Kft.

30 July 2020

1132 Budapest

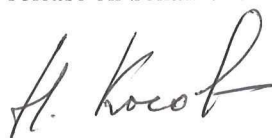
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**INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION****At 30 June 2020***(Thousands of euros)*

	<i>Note</i>	<b>30 June 2020</b>	<b>31 December 2019</b>
<b>Assets</b>			
Cash and cash equivalents	5	170,330	48,047
Deposits with banks and other financial institutions	6	24,998	29,056
Derivative financial assets	7	20,260	4,011
Investments in the fund at fair value through profit or loss		1,255	1,119
Securities at fair value through other comprehensive income	8	229,529	216,231
Securities at fair value through other comprehensive income pledged under repurchase agreements	8	58,410	—
Securities at amortized cost	9	39,345	92,595
Securities at amortized cost pledged under repurchase agreements	9	57,893	—
Loans to banks	10	158,764	149,697
Loans to customers	11	746,430	734,512
Loans to customers pledged under repurchase agreements	11	46,134	—
Investment property		34,413	40,218
Property, equipment and intangible assets		68,556	40,715
Other assets	12	4,614	2,836
<b>Total assets</b>		<b>1,660,931</b>	<b>1,359,037</b>
<b>Liabilities</b>			
Due to banks and other financial institutions	14	162,343	48,410
Derivative financial liabilities	7	33,235	30,856
Current customer accounts		11,144	11,148
Long-term loans of banks	15	81,201	56,735
Debt securities issued	16	912,540	793,537
Other liabilities	12	10,373	10,274
<b>Total liabilities</b>		<b>1,210,836</b>	<b>950,960</b>
<b>Equity</b>	17		
Authorized capital		2,000,000	2,000,000
Less: unallocated capital		(875,500)	(875,500)
<b>Subscribed capital</b>		<b>1,124,500</b>	<b>1,124,500</b>
Less: callable capital		(748,745)	(784,888)
<b>Paid-in capital</b>		<b>375,755</b>	<b>339,612</b>
Revaluation reserve for securities at fair value through other comprehensive income		3,894	6,157
Revaluation reserve for property and equipment		10,861	10,861
Cash flow hedge reserve	7	2,390	(809)
Foreign currency translation reserve		(105)	(75)
Retained earnings less net income for the period		52,331	46,646
Net income for the period		4,969	5,685
<b>Total equity</b>		<b>450,095</b>	<b>408,077</b>
<b>Total equity and liabilities</b>		<b>1,660,931</b>	<b>1,359,037</b>

**Signed and authorized for release on behalf of the Management Board of the Bank**

Nikolay Kosov



Chairperson of the Management Board

Elena Minduksheva



Deputy Director of the Finance Department

30 July 2020

*The accompanying notes 1-27 are an integral part of these interim condensed consolidated financial statements.*

**INTERIM CONSOLIDATED INCOME STATEMENT****Six months ended 30 June 2020***(Thousands of euros)*

	<i>Note</i>	<i>For the six months ended 30 June (unaudited)</i>	
		<i>2020</i>	<i>2019</i>
Interest income calculated using the EIR method	20	21,565	23,721
Other interest income	20	9,214	9,267
Interest expense calculated using the EIR method	20	(16,460)	(17,645)
Other interest expense	20	(5,409)	(4,169)
<b>Net interest income</b>		<b>8,910</b>	<b>11,174</b>
Net allowance for credit losses on financial instruments	5-6, 8, 10-11, 12-13, 18	(2,015)	276
<b>Net interest income after allowance for loan impairment</b>		<b>6,895</b>	<b>11,450</b>
Fee and commission income		1,195	673
Fee and commission expense		(154)	(144)
<b>Net fee and commission income</b>		<b>1,041</b>	<b>529</b>
Net losses from operations with foreign currencies and derivatives	21	(1,209)	(2,208)
Net gains from operations with securities at fair value through other comprehensive income		5,462	1,715
Income from lease of investment property		1,181	1,582
Gains from sale of investment property		647	–
Losses from revaluation of investment property		–	(891)
Other expenses		(265)	(448)
<b>Net non-interest income/(expenses)</b>		<b>5,816</b>	<b>(250)</b>
<b>Operating income</b>		<b>13,752</b>	<b>11,729</b>
General and administrative expenses	22	(8,551)	(8,545)
Other operating expenses on banking operations		(232)	(310)
<b>Operating expenses</b>		<b>(8,783)</b>	<b>(8,855)</b>
<b>Net income for the period</b>		<b>4,969</b>	<b>2,874</b>

*The accompanying notes 1-27 are an integral part of these interim condensed consolidated financial statements.*

**INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****Six months ended 30 June 2020***(Thousands of euros)*

	<i>Note</i>	<i>For the six months ended 30 June (unaudited)</i>	
		<i>2020</i>	<i>2019</i>
<b>Net income for the period</b>		<b>4,969</b>	<b>2,874</b>
<b>Other comprehensive income</b>			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Net change in the fair value of debt instruments at fair value through other comprehensive (loss)/income	17	(2,540)	10,023
Net unrealized income on cash flow hedges	7	3,199	–
Change in the allowance for expected credit losses related to securities at fair value through other comprehensive income	8, 11	277	(64)
Translation differences		(30)	20
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>		<b>906</b>	<b>9,979</b>
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods</i>			
Income on equity instruments at fair value through other comprehensive income		–	111
<b>Net other comprehensive income not to be reclassified to profit or loss in subsequent periods</b>		<b>–</b>	<b>111</b>
<b>Other comprehensive income</b>		<b>906</b>	<b>10,090</b>
<b>Total comprehensive income for the period</b>		<b>5,875</b>	<b>12,964</b>

*The accompanying notes 1-27 are an integral part of these interim condensed consolidated financial statements.*

**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****Six months ended 30 June 2020***(Thousands of euros)*

	<i>Authorized capital</i>	<i>Unallocated capital</i>	<i>Callable capital</i>	<i>Revaluation reserve for securities</i>	<i>Revaluation reserve for property and equipment</i>	<i>Cash flow hedge reserve</i>	<i>Foreign currency translation reserve</i>	<i>Retained earnings</i>	<i>Total equity</i>
<b>At 1 January 2019</b>	<b>2,000,000</b>	<b>(875,500)</b>	<b>(798,538)</b>	<b>(7,366)</b>	<b>13,748</b>	–	<b>(104)</b>	<b>43,759</b>	<b>375,999</b>
Profit for the period	–	–	–	–	–	–	–	2,874	<b>2,874</b>
Other comprehensive loss	–	–	–	10,070	–	–	20	–	<b>10,090</b>
<b>Total comprehensive income</b>	–	–	–	<b>10,070</b>	–	–	<b>20</b>	<b>2,874</b>	<b>12,964</b>
Contributions to capital (Note 17)	–	–	3,650	–	–	–	–	–	<b>3,650</b>
<b>At 30 June 2019 (unaudited)</b>	<b>2,000,000</b>	<b>(875,500)</b>	<b>(794,888)</b>	<b>2,704</b>	<b>13,748</b>	–	<b>(84)</b>	<b>46,633</b>	<b>392,613</b>
<b>At 1 January 2020</b>	<b>2,000,000</b>	<b>(875,500)</b>	<b>(784,888)</b>	<b>6,157</b>	<b>10,861</b>	<b>(809)</b>	<b>(75)</b>	<b>52,331</b>	<b>408,077</b>
Profit for the period	–	–	–	–	–	–	–	4,969	<b>4,969</b>
Other comprehensive income/(loss)	–	–	–	(2,263)	–	3,199	(30)	–	<b>906</b>
<b>Total comprehensive income/(loss)</b>	–	–	–	<b>(2,263)</b>	–	<b>3,199</b>	<b>(30)</b>	<b>4,969</b>	<b>5,875</b>
Contributions to capital (Note 17)	–	–	36,143	–	–	–	–	–	<b>36,143</b>
<b>At 30 June 2020 (unaudited)</b>	<b>2,000,000</b>	<b>(875,500)</b>	<b>(748,745)</b>	<b>3,894</b>	<b>10,861</b>	<b>2,390</b>	<b>(105)</b>	<b>57,300</b>	<b>450,095</b>

The accompanying notes 1-27 are an integral part of these interim condensed consolidated financial statements.

**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS****Six months ended 30 June 2020***(Thousands of euros)*

	<i>Note</i>	<i>For the six months ended 30 June (unaudited)</i>	
		<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities</b>			
Interest, fees and commissions received		19,914	16,177
Interest, fees and commissions paid		(259)	(437)
Realized gains less losses from operations with foreign currencies and derivatives		(28,404)	(12,916)
Cash flows from lease of investment property	19	1,181	1,582
General and administrative expenses		(7,402)	(6,703)
Other operating (expenses)/income on banking operations		74	6
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>(14,896)</b>	<b>(2,291)</b>
<i>Net (increase)/decrease in operating assets</i>			
Deposits with banks and other financial institutions		4,332	18,059
Loans to banks		(8,494)	15,823
Loans to customers		(79,086)	(29,521)
Other assets		787	(479)
<i>Net increase/(decrease) in operating liabilities</i>			
Due to banks and other financial institutions		116,376	6,508
Current customer accounts		(607)	(283)
Other liabilities		(453)	(466)
<b>Net cash flows from operating activities</b>		<b>17,959</b>	<b>7,350</b>
<b>Cash flows from investing activities</b>			
Interest received		3,943	2,643
Purchase of securities at fair value through other comprehensive income		(230,259)	(138,245)
Proceeds from sale and redemption of securities at fair value through other comprehensive income		153,052	133,983
Purchase of securities at amortized cost		—	(32,832)
Proceeds from redemption of securities at amortized cost		856	274
Proceeds from sale of investment property		3,690	627
Acquisition of property, equipment and intangible assets		(27,384)	(564)
<b>Net cash flows from investing activities</b>		<b>(96,102)</b>	<b>(34,114)</b>
<b>Cash flows from financing activities</b>			
Interest paid		(9,657)	(7,798)
Long-term interbank financing raised	15	31,564	505
Long-term interbank financing repaid	15	(6,000)	(12,713)
Debt securities issued	16	283,173	107,772
Redemption and repurchase of debt securities	16	(124,177)	(41,594)
Contributions to capital	17	36,143	3,650
<b>Net cash flows from financing activities</b>		<b>211,046</b>	<b>49,822</b>
Effect of exchange rate changes on cash and cash equivalents		(10,620)	(247)
<b>Net increase in cash and cash equivalents</b>		<b>122,283</b>	<b>22,811</b>
Cash and cash equivalents, beginning		48,047	49,240
<b>Cash and cash equivalents, ending</b>	5	<b>170,330</b>	<b>72,051</b>

The accompanying notes 1-27 are an integral part of these interim condensed consolidated financial statements.



*(Thousands of euros)*

## 1. Principal activities

These interim condensed consolidated financial statements include the financial statements of the International Investment Bank (the “Bank”, or “IIB”) and CJSC IIB Capital, the subsidiary of the Bank. The Bank and its subsidiary are hereinafter collectively referred to as the “Group”. The International Investment Bank is the parent company of the Group. Information on the subsidiary of the Bank is presented in Note 2.

The International Investment Bank was founded in 1970 and has operated since 1 January 1971.

The Bank is an international institution operating on the basis of the intergovernmental Agreement Establishing the International Investment Bank (the “Agreement”) and its Charter. The Agreement was ratified by the member countries of the Bank and registered with the Secretariat of the United Nations in December 1971. On 18 August 2018, the revised Agreement and Charter, approved by the Protocol Amending the Agreement Establishing the International Investment Bank and its Charter of 8 May 2014, became effective and applicable. The Bank is primarily engaged in commercial lending for the benefit of national investment projects in the member countries of the Bank and for other purposes defined by the Board of Governors of the IIB. The Bank also performs transactions with securities and foreign currency.

Following the decision adopted by the Board of Governors in December 2018 the Bank’s headquarters were relocated from Russia to Hungary. Since 30 April 2019, IIB operates from its headquarters in Hungary located at Váci ut, 188, Budapest. At the same time the IIB Branch has begun to operate in Moscow (7 Mashki Poryvaevoy str., Moscow, Russian Federation). During the six months ended 30 June 2020, the Group acquired the historic Lánchíd Palota building for its headquarters in Budapest for EUR 27,073 thousand and classified it in the “Property, equipment and intangible assets”.

On 31 July 2014, the EU Council imposed sectoral sanctions against Russia. The preamble of the Decision of the EU Council of 31 July 2014 (paragraph 9) and Council Regulation (EU) No. 833/2014 of 31 July 2014 (paragraph 5), which was developed based on the Decision, emphasize that the sanctions do not cover Russia-based institutions with international status established by intergovernmental agreements in which Russia is one of the parties. Therefore, IIB is directly excluded from the list of financial institutions to which the restrictions apply.

The Group continues to expand its operations in accordance with its mandate and strategic objectives established by the member countries:

- ▶ Notwithstanding the unfolding global economic crisis caused by the COVID-19 pandemic in H1 2020 IIB managed to maintain a sustainable financial position by implementing timely and well-designed preventive measures. This was also recognized by the international rating agencies that in H1 2020 confirmed IIB’s status of an average A-rated institution: in March S&P Global affirmed IIB’s “A-” long-term rating with a stable outlook, in May 15, 2020 Moody’s Investors Service confirmed the long-term credit rating of IIB at A3 with a stable outlook. In May the Russian Analytical Credit Rating Agency (ACRA) affirmed IIB’s international investment rating at “A” level, as well as the national rating at AAA (RU).
- ▶ The practical implementation of the new capitalization program approved by IIB member states in the amount of up to EUR 200,000 thousand till 2022, was started in H1 2020 by fulfillment of Russia’s (EUR 20,640 thousand) and Hungary’s (EUR 5,503 thousand) obligations due in 2020. Thus, the total paid-in capital of the Bank reached EUR 375,755 thousand.
- ▶ In January, 2020 the international media holding Global Banking and Finance Review named IIB the “Best Bank for Sustainable Development in Central and Eastern Europe” in 2019.
- ▶ Following two IIB’s debut HUF bond placements on the Budapest Stock Exchange in 2019 in February, 2020 the Bank was recognized as the “Best International Issuer of the Year” on the Hungarian Debt Capital Market by BSE.
- ▶ In March, 2020 IIB successfully registered its first ever Medium Term Notes (MTN) Program on Dublin Stock Exchange and already in April executed its first transaction under the new framework – a 1-year RON 110,000 thousand (EUR 22,754 thousand) private placement.
- ▶ In April and May, 2020 the Group place three bond issuances on MOEX in the total amount of RUB 19 bn (EUR 237,918 thousand) for 3 and 5 years. The bonds was issued under IIB’s registered RUB bond program.
- ▶ On May 19, 2020 IIB successfully executed the second transaction under its MTN Program, namely the Czech koruna-denominated bonds in the total volume of CZK 621,000 thousand (EUR 22,820 thousand) were issued with a maturity of three years.
- ▶ In June, 2020 following its mission and Policy on Environmental and Social Sustainability IIB invested in the debut placement of green bonds arranged by the Hungarian Government Debt Management Agency Pte. Ltd – ÁKK. The issue with a total volume of EUR 1.5 billion was the first green sovereign bonds placement in the history of the country.

*(Thousands of euros)***1. Principal activities (continued)****Member countries of the Bank**

The member countries of the Bank are (share in the paid-in capital of the Bank, %):

<i>Member countries</i>	<i>30 June 2020, % (unaudited)</i>	<i>31 December 2019, %</i>
Russian Federation	45.419	44.176
Hungary	17.432	14.723
Republic of Bulgaria	11.232	12.427
Czech Republic	9.947	11.005
Romania	6.947	7.686
Slovak Republic	5.717	6.325
Republic of Cuba	1.427	1.578
Socialist Republic of Vietnam	0.976	1.081
Mongolia	0.903	0.999
	<b>100.000</b>	<b>100.000</b>

**Conditions of the Bank's financial and business operations in the member countries**

The Bank is not subject to taxation in its member countries and enjoys all the privileges available to diplomatic representations.

The Bank is not subject to regulation by the Central Banks of the member countries, including the country of residence.

**Business environment in the member countries**

Economic and political development of the Bank's member countries affects the activities of enterprises operating in these countries. Considering this fact, the Bank performs its operations with reference to the local specifics of its member countries to ensure overall assessment and control of credit and operational risks.

The accompanying interim condensed consolidated financial statements reflect the management's assessment of the impact of the member countries' business environment on the results of operations and financial position of the Group. Future evolution of the conditions in which the Group operates may differ from the assessment made by the management for the purposes of these interim condensed consolidated financial statements.

**2. Basis of preparation****General**

These interim condensed consolidated financial statements have been prepared for the six months ended 30 June 2019 in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* approved by the International Accounting Standards Board.

These interim condensed consolidated financial statements have been prepared on a going concern assumption. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2019.

The interim condensed consolidated financial statements shall be incorporated by reference in the Offering Circular related to the IIB Medium Term Note Programme.

(Thousands of euros)

## 2. Basis of preparation (continued)

### Effect of COVID-19 pandemic

Due to rapid spread of COVID-19 pandemic in early 2020 most countries have taken restrictive measures such as stay-at-home orders and business lock-downs, which have been massively affecting both social and economic activities. Policy-makers, central banks and regulators have responded by taking action, including multi-billion aid programs providing social and economic support, rate cuts and loan repayment moratoria to cushion the negative impacts on the economy going forward.

The changes in the economic environment, described above, not have a significant impact on the Group's operations however the Group continues to assess pandemic effect and changing micro- and macroeconomic conditions on its activities, financial position and financial results.

According to IFRS 9 *Financial Instruments*, the Group uses forecast information in the expected credit loss models, including forecasts of macroeconomic indicators. For the purpose of calculating credit loss allowances as at 30 June 2020, the Group took into account expectations regarding:

- ▶ Decrease in income of individuals and business caused by a limited economic activity;
- ▶ The GDP reduction;
- ▶ Updated forecasts for prices of major commodities and exchange rates of the Euro to major foreign currencies;
- ▶ Measures of state support to business;
- ▶ Impact of changes in economic environment on different sectors of economy.

In addition, the Group applied the following international practices consistent with the recommendations of the International Accounting Standards Board and the European Banking Authority to reflect appropriately the uncertainty associated with the COVID-19 pandemic:

- ▶ Refinement of macro-adjustment calculation approach;
- ▶ Adjustments to provisions on the basis of rescheduled payment for the borrowers subject to restructuring or public moratorium.

More detailed description of the changes and their impact on the results of the Group's operations for the six months ended 30 June 2020 is disclosed in Note 4.

The management of the Group continues to monitor the situation and takes all possible measures to reduce the possible negative impact on the Group.

### Subsidiary

As at 30 June 2020, the Bank is parent company of the Group, which owns CJSC IIB Capital (the Bank's 100% subsidiary) established in 2012 to deal with issues related to IIB activities in Russia including provision of trustee services to the Bank. As at 30 June 2020, the authorized capital of the subsidiary is RUB 44.5 thousand (31 December 2018: RUB 44.5 thousand), which is equivalent to EUR 1.1 thousand at the historical exchange rate at the date of establishment of the subsidiary.

### Basis of measurement

These interim condensed consolidated financial statements have been prepared under the historical cost convention with the exception of the financial instruments under fair value convention, the changes of which are translated through profit or loss account for the period, financial instruments at fair value through other comprehensive income and buildings in the property, equipment and investment property stated at revalued amounts.

### Functional and presentation currency

The euro ("EUR") is the Group's functional and presentation currency as it reflects the economic substance of the underlying operations conducted by the Group and circumstances affecting its operations, because most financial assets and financial liabilities as well as income and expenses of the Group are denominated in EUR.

These interim condensed consolidated financial statements are presented in thousands of euro (EUR), unless otherwise indicated.

(Thousands of euros)

### 3. Summary of accounting policies

#### Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of new Standards effective as of 1 January 2020. The nature and the effect of these changes are disclosed below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Several other amendments and interpretations apply for the first time in 2020, but do not have an impact on the interim condensed consolidated financial statements of the Group.

#### *Amendments to IFRS 3: Definition of a Business*

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the interim condensed consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

#### *Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform*

The amendments to IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement* provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. When performing hedge effectiveness assessments, the Group assumes that the interest rate benchmark on which the hedged item or hedging instrument are based is not altered as a result of the interest rate benchmark reform.

#### *Amendments to IAS 1 and IAS 8: Definition of Material*

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the interim condensed consolidated financial statements of, nor is there expected to be any future impact to the Group.

#### *Conceptual Framework for Financial Reporting issued on 29 March 2018*

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the interim condensed consolidated financial statements of the Group.

*(Thousands of euros)*

## 4. Significant accounting judgments and estimates

### Assumptions and estimation uncertainty

In the process of applying the Group's accounting policies, management has made its professional judgments, used several assumptions and estimates on determining the amounts of assets and liabilities recognized in the interim condensed consolidated financial statements, which have the most significant effect on the amounts recognized in the interim condensed consolidated financial statements and the carrying amount of assets and liabilities in the following financial year. Estimates and assumptions are continuously assessed on the basis of management experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

When measuring expected credit losses, the Group considers reasonable and supportable information on current and expected future economic conditions. As such, the Group regularly updates macroeconomic scenarios and models used to measure key components, which are considered when determining expected credit losses. In order to plot the expected negative impact of COVID-19 and declining energy prices, the Group revised its macroeconomic projections in the models of macroeconomic adjustments while estimating the expected credit losses. The Group prepared forecasts for each macroeconomic region up to 2-years into the future considering two different scenarios. Expected credit losses were estimated considering the availability of state reserves to support economic measures, differentiated effect of changes on various industries and specifics of the bank's assets subject to provisioning in accordance with IFRS 9. The specified changes resulted in increased provisions.

The measurement of expected credit loss allowance for financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income (FVOCI) is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Several significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- ▶ Determining criteria for significant increase in credit risk;
- ▶ Choosing appropriate models and assumptions for the measurement of ECL;
- ▶ Establishing the number and relative weightings of forward-looking scenarios for each type of product /market and the associated ECL;
- ▶ Establishing groups of similar financial assets for the purposes of measuring ECL.

The Group makes estimates and judgments, which are constantly analyzed based on statistical data, actual and forecast information, as well as management experience, including expectations regarding future events that are reasonable in current circumstances.

In order to reflect objectively the impact of the prevailing macroeconomic conditions and in accordance with the recommendations of the International Accounting Standards Board and the European Banking Authority, the Group adjusted the main approaches to assessing the level of expected credit losses that have the most significant effect on the amounts recorded in the consolidated financial statements.

The Group refined the approach to calculating macro-adjustments to the probability of default (PD) of borrowers. Macro-adjustment models were applied which reflect more accurately changed economic conditions.

Impact of the changed macroeconomic conditions assessed using the approaches described above was the main factor for the significant increase in cost of risk in the six months of 2020. As a result during the six months ended 30 June 2020 there was an increase of the expected credit loss allowance in the amount of EUR 1,566 thousand.

In particular, information on significant areas of estimation uncertainty and critical judgments in applying accounting policies is presented in the following notes:

- ▶ Note 7 – Derivative financial instruments;
- ▶ Note 8 – Securities at fair value through other comprehensive income;
- ▶ Note 9 – Securities at amortized cost;
- ▶ Note 10 – Loans to banks;
- ▶ Note 11 – Loans to customers;
- ▶ Note 18 – Commitments and contingencies.

(Thousands of euros)

**5. Cash and cash equivalents**

Cash and cash equivalents comprise:

	<i>30 June 2020 (unaudited)</i>	<i>31 December 2019</i>
<b>Cash on hand</b>	<b>286</b>	<b>530</b>
<b>Nostro accounts with banks and other financial institutions</b>		
<i>Credit rating from A- to A+</i>	145,976	41,706
<i>Credit rating from BBB- to BBB+</i>	2,352	4,901
<i>Credit rating from BB- to BB+</i>	1,717	601
<b>Total nostro accounts with banks and other financial institutions</b>	<b>150,045</b>	<b>47,208</b>
<b>Short-term deposits with banks</b>		
<i>Credit rating BBB-</i>	20,000	309
<b>Total short-term deposits with banks</b>	<b>20,000</b>	<b>309</b>
Less: allowance for impairment of cash and cash equivalents	(1)	–
<b>Cash and cash equivalents</b>	<b>170,330</b>	<b>48,047</b>

Cash and cash equivalents are neither impaired, nor past due.

**6. Deposits with banks and other financial institutions**

Deposits with banks and other financial institutions are presented based on contractual terms and include the following items:

	<i>30 June 2020 (unaudited)</i>	<i>31 December 2019</i>
<b>Term deposits up 1 year</b>		
<i>Credit rating A</i>	358	–
<b>Total term deposits up 1 year</b>	<b>358</b>	<b>–</b>
<b>Term deposits over 1 year</b>		
<i>Credit rating from AA- to AA+</i>	21,500	13,310
<i>Credit rating from A- to A+</i>	3,140	8,440
<i>Credit rating from BBB- to BBB+</i>	–	7,306
<b>Total term deposits over 1 year</b>	<b>24,640</b>	<b>29,056</b>
<b>Deposits with banks and other financial institutions</b>	<b>24,998</b>	<b>29,056</b>

As at 30 June 2020 all deposits with banks and other financial institutions classified in Stage 1 (31 December 2019: Stage 1).

As at 30 June 2020, in addition to term deposits above EUR 34,967 thousand (31 December 2019: EUR 34,967 thousand) were due to the Bank from the Central Bank of Cuba. This amount was fully provisioned (31 December 2019: EUR 34,967 thousand).

**Concentration of deposits with banks and other financial institutions**

As at 30 June 2020, besides deposits with the Central Bank of Cuba, the Group had deposits of three counterparties (31 December 2019: four counterparties) to each of them accounting for over 10% of the Group's total deposits with banks and other financial institutions and amounting to EUR 24,640 thousand in total (31 December 2019: EUR 27,026 thousand).

(Thousands of euros)

**7. Derivative financial instruments**

The Group performs operations with currency and other derivative financial instruments, which are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions. Derivative financial instruments have either potentially favorable terms (and are assets) or potentially unfavorable conditions (and are liabilities) as a result of fluctuations in exchange rates or other variable factors associated with these instruments. The fair value of derivative financial instruments can vary significantly depending on the potentially favorable and unfavorable conditions.

The table below shows the fair value of derivative financial instruments as 30 June 2020 and 31 December 2019 and notional amounts of term contracts for the purchase and sale of foreign currency specifying contractual exchange rates.

30 June 2020 (unaudited)					
Nominal amount			Weighted average exchange rate	Fair value	
Purchase	Sale			Assets	Liabilities
Derivative financial assets and liabilities at fair value through profit or loss					
Swaps	RUB 7,000,000 thousand	EUR 89,563 thousand	78.16	2,406	2,143
	RON 569,500 thousand	EUR 121,948 thousand	4.67	458	4,359
	EUR 198,496 thousand	USD 226,618 thousand	1.14	–	8,541
	EUR 24,410 thousand	RON 116,599 thousand	4.78	341	17
	EUR 72,972 thousand	RUB 5,443,000 thousand	74.59	4,404	–
	HUF 11,900,000 thousand	USD 43,139 thousand	275.85	–	6,436
	HUF 12,800,000 thousand	EUR 40,852 thousand	313.33	–	4,420
	CZK 1,500,000 thousand	EUR 58,749 thousand	25.53	–	3,090
	EUR 45,000 thousand	USD 50,483 thousand	1.12	108	–
Forwards		30,010			
	EUR 44,119 thousand	government bonds		126	–
Total derivative financial assets and liabilities at fair value through profit or loss				7,843	29,006
Derivative financial assets and liabilities designated as hedging instruments					
Swaps	HUF 22,500,000 thousand	EUR 67,669 thousand	332.50	–	4,229
	RUB 14,000,000 thousand	EUR 174,546 thousand	80.21	10,632	–
	CZK 621,000 thousand	EUR 22,582 thousand	27.50	432	–
	RON 500,000 thousand	EUR 105,122 thousand	4.76	1,353	–
Total derivative financial assets and liabilities designated as hedging instruments				12,417	4,229
Derivative financial instruments				20,260	33,235

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(Thousands of euros)

**7. Derivative financial instruments (continued)**

31 December 2019					
Nominal amount			Weighted average exchange rate	Fair value	
Purchase	Sale			Assets	Liabilities
Derivative financial assets and liabilities at fair value through profit or loss					
Swaps	RUB 9,000,000 thousand	EUR 137,285 thousand	65.73	1,248	6,347
	RON 459,500 thousand	EUR 99,221 thousand	4.70	–	2,127
	EUR 146,655 thousand	USD 169,508 thousand	1.16	37	7,099
	EUR 15,139 thousand	HUF 4,760,000 thousand	314.42	729	–
	EUR 14,492 thousand	RON 68,525 thousand	4.73	85	229
	EUR 71,408 thousand	RUB 5,350,000 thousand	74.92	36	5,134
	HUF 11,900,000 thousand	USD 43,139 thousand	275.85	–	3,418
	HUF 16,770,000 thousand	EUR 53,240 thousand	315.03	–	1,472
	CZK 1,500,000 thousand	EUR 58,749 thousand	25.53	1,380	–
	RUB 3,000,000 thousand	USD 52,910 thousand	56.70	–	3,332
Forwards	EUR 45,000 thousand	USD 51,323 thousand	1.14	–	777
Total derivative financial assets and liabilities at fair value through profit or loss				3,515	29,935
Derivative financial assets and liabilities designated as hedging instruments					
Swaps	HUF 22,500,000 thousand	EUR 67,669 thousand	332.50	496	–
	RON 500,000 thousand	EUR 105,122 thousand	4.76	–	921
Total derivative financial assets and liabilities designated as hedging instruments				496	921
Derivative financial instruments				4,011	30,856

Following the issue of bonds denominated in currencies other than the functional currency of the Group (Note 16), the Group concluded cross currency interest rate swaps and currency forwards on an arm's length basis mostly with large international credit institutions. These swaps are used to manage long-term currency risks of the Group. Payment netting is not applied to the parties' obligations in respect of interest and principal payments.

The Group applies hedge accounting for the forward foreign exchange risk of the bond issue in Romanian lei placed on 1 November 2019, of the bond issue in Hungarian forint placed on 18 October 2019, of the bonds issues in Russian ruble placed on 29 April 2020 and on 19 May 2020 and of the bond issue in Czech korunas placed on 19 May 2020 (Note 16).

The notional amount, recorded gross, is the amount of a derivative's underlying asset and liability and is the basis upon which changes in the value of derivatives are measured. The nominal amounts indicate the volume of transactions outstanding at the end of the reporting period and are not indicative of the credit risk.

As at 30 June 2020 and 31 December 2019, the Group has positions in the following types of derivatives:

**Forwards:** Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

**Swaps:** Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified nominal amounts.

Fair value measurement is based on the corresponding forward curves that depend on exchange rates, interest rates and swap contract maturity. For the fair value of swaps, the discount rate was calculated on the basis of zero coupon yield curve and credit risk. Changes in the fair value of swaps were mainly due to the increase in the forward exchange rates of the euro to transaction currencies.



*(Thousands of euros)*

## 7. Derivative financial instruments (continued)

**Cash flow hedge:** The Group's strategy is to apply cash flow hedge accounting to keep its foreign currency revaluation fluctuations within its established limits. Applying cash flow hedge accounting enables the Group to reduce the cash flow fluctuations arising from foreign exchange risk on an instrument or group of instruments.

From an accounting point of view, a cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss.

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognized directly in OCI within equity (Cash flow hedge reserve). The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in Net gains/(losses) from operation with foreign currencies and derivatives in the interim condensed consolidated income statement.

When the hedged cash flow affects the interim condensed consolidated income statement, the effective portion of the gain or loss on the hedging instrument is recorded in the corresponding income or expense line off.

When a hedging instrument expires, is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognized in OCI at that time remains in OCI and is recognized when the hedged forecast transaction is ultimately recognized in the interim condensed consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately transferred to the interim condensed consolidated income statement.

### *Micro-cash flow hedges*

Micro-cash flow hedge relationships relate to distinctly identifiable assets or liabilities, hedged by one, or a few, hedging instruments.

The Group's micro-cash flow hedges consist principally of cross-currency swaps that are used to protect against exposures to variability in future interest and principal cash flows on its issued bonds due to changes in forward foreign exchange rate risk. The hedging ratio is established by matching the notional of the derivatives against the principal of the hedged issued foreign currency debt.

The Group considers the hedge of HUF-, RON-, RUB-denominated fixed and CZK-denominated floating rate bonds as a hedge of forward foreign exchange rate risk and follows a micro cash flow hedge with the currency risk element further described in Note 23.

The corresponding line item in the consolidated statement of financial position, where the hedged item is recorded, is Debt securities issued.

To test the hedge effectiveness, the Group compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risk (e.g., changes in the forward exchange rates or interest rate risk) as represented by a hypothetical derivative. The hypothetical derivative method involves establishing a notional derivative that would be the ideal hedging instrument for the hedged exposure.

Hedge ineffectiveness can arise from:

- ▶ Differences in timing of cash flows of hedged items and hedging instruments;
- ▶ Derivatives used as hedging instruments having a non-nil fair value at the time of designation; and
- ▶ The effect of changes in counterparties' credit risk on the fair values of hedging instruments or hedged items.

Considering the structure of hedge used by the Group, the main source of ineffectiveness from the described above are differences in timing of cash flows.

*(Thousands of euros)***7. Derivative financial instruments (continued)**

The below table sets out the outcome of the Group's hedging strategy, in particular, changes in fair values of hedging instruments used for measuring hedge ineffectiveness separately showing the effective and ineffective portions:

	<i>30 June 2020 (unaudited)</i>				<i>Hedge ineffectiveness identified recognized in the income statement in Net losses from operations with foreign currencies and derivatives</i>
	<i>Change in fair value of hypothetical derivative used for ineffectiveness measurement</i>	<i>Changes in fair value of hedging instruments used for ineffectiveness measurement</i>		<i>Effective portion of change in fair value excluding net interest</i>	
		<i>Change in fair value excluding net interest income/(expense)</i>	<i>Net interest income/(expense)</i>	<i>income/(expense)</i>	
<b>Micro-cash flow hedges</b>					
Fixed rate HUF bonds	(4,789)	(4,978)	253	(4,978)	—
Fixed rate RON bonds	246	503	1,772	269	—
Fixed rate RUB bonds	2,738	3,241	1,401	3,179	62
Floating rate CZK bonds	134	9	(1)	9	—
	<b>(1,671)</b>	<b>(1,225)</b>	<b>3,425</b>	<b>(1,521)</b>	<b>62</b>

As at 30 June 2019 the Group did not have derivative financial assets and liabilities designated as hedging instruments.

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(Thousands of euros)

**7. Derivative financial instruments (continued)**

The breakdown of cash flow hedge reserve movements during the year as follows:

	30 June 2020 (unaudited)			
	Opening balance of cash flow hedge reserve as at 1 January 2020	Foreign currency revaluation of hedged item	Change in fair value of hedging instruments excluding net interest income/(expense)	Closing balance of cash flow hedge reserve as at 30 June 2020
Fixed rate HUF bonds	65	4,838	(4,978)	(75)
Fixed rate RON bonds	(874)	1,280	269	675
Fixed rate RUB bonds	—	(1,202)	3,179	1,977
Floating rate CZK bonds	—	(196)	9	(187)
	<u>(809)</u>	<u>4,720</u>	<u>(1,521)</u>	<u>2,390</u>
	31 December 2019			
	Opening balance of cash flow hedge reserve as at 1 January 2019	Foreign currency revaluation of hedged item	Change in fair value of hedging instruments excluding net interest income/(expense)	Closing balance of cash flow hedge reserve as at 31 December 2020
Fixed rate HUF bonds	—	8	57	65
Fixed rate RON bonds	—	647	(1,521)	(874)
	<u>—</u>	<u>655</u>	<u>(1,464)</u>	<u>(809)</u>

During six month 2020 interest exchange payment of EUR (234) thousand (2019: no such payments) was presented in “Net losses from foreign currencies and derivatives” and the amount of net interest income on hedging instruments of EUR 3,425 thousand (2019: EUR 684 thousand) was recognized in “Other interest income”.

As at 30 June 2020 change in fair value of hypothetical derivatives for the reporting year used for ineffectiveness measurement was EUR (1,671) thousand (31 December 2019: EUR (1,685) thousand), change in fair value of hedging instruments used for ineffectiveness measurement was EUR (1,677) thousand (31 December 2019: EUR (1,690) thousand). During six months 2020 change in fair value of hedging instruments of EUR 2,262 thousand (2019: EUR (780) thousand) and interest exchange payment of EUR (234) thousand (2019: no such payments) were presented in “Net losses from operations foreign currencies and derivatives” and from which the amount of EUR 3,425 thousand (2019: EUR 684 thousand) was reclassified into “Other interest income”; change in fair value of hedged item of EUR 4,720 thousand (31 December 2019: EUR 656 thousand) was recognized within “Net losses from operations with foreign currencies and derivatives”. Hedging gains of EUR 3,323 thousand (31 December 2019: losses of EUR (809) thousand) were reclassified into OCI in “Net unrealized losses on cash flow hedges”.

(Thousands of euros)

**7. Derivative financial instruments (continued)**

The following table shows the maturity and interest rate risk profiles of the Group's hedging instruments used in its cash flow hedges. As the Group applies one-to-one hedging ratios, the below table effectively shows the outcome of the cash flow hedges:

	<b>30 June 2020</b> <b>(unaudited)</b>	<b>31 December</b> <b>2019</b>
	<i>1 to 5 years</i>	<i>1 to 5 years</i>
<b>Micro-cash flow hedges</b>		
<b>Cross currency interest rate swaps</b>		
Notional principal	67,669	67,669
Average interest rate	0.45%	0.45%
Average HUF/EUR rate	332.50	332.50
Notional principal	105,122	105,122
Average interest rate	0.46%	0.46%
Average RON/EUR rate	4.76	4.76
Notional principal	174,546	—
Average interest rate	1.53%	—
Average RUB/EUR rate	80.27	—
Notional principal	22,582	—
Average interest rate	1.16%	—
Average CZK/EUR rate	27.50	—

**8. Securities at fair value through other comprehensive income**

Securities at fair value through other comprehensive income comprise:

	<b>30 June 2020</b> <b>(unaudited)</b>	<b>31 December</b> <b>2019</b>
<b>Owned by the Group</b>		
<b>Listed debt securities at fair value through other comprehensive income</b>		
Government bonds of member countries		
<i>Credit rating A</i>	33,177	—
<i>Credit rating from BBB- to BBB+</i>	57,866	12,877
Government bonds of non-member countries		
<i>Credit rating from AA- to AA+</i>	17,582	16,957
<i>Credit rating from A- to A+</i>	—	10,996
<i>Credit rating from BBB- to BBB+</i>	—	4,987
<b>Government bonds</b>	<b>108,625</b>	<b>45,817</b>
Corporate bonds		
<i>Credit rating AAA</i>	12,125	40,124
<i>Credit rating from AA- to AA+</i>	13,923	23,705
<i>Credit rating from A- to A+</i>	47,657	57,100
<i>Credit rating from BBB- to BBB+</i>	23,045	14,748
<i>Credit rating from BB- to BB+</i>	24,154	34,732
<b>Corporate bonds</b>	<b>120,904</b>	<b>170,409</b>
<b>Total listed debt securities at fair value through other comprehensive income</b>	<b>229,529</b>	<b>216,226</b>
<b>Equity instruments at fair value through other comprehensive income</b>		
<i>No credit rating</i>	—	5
<b>Equity instruments</b>	<b>—</b>	<b>5</b>
<b>Total equity instruments at fair value through other comprehensive income</b>	<b>—</b>	<b>5</b>
<b>Securities at fair value through other comprehensive income</b>	<b>229,529</b>	<b>216,231</b>

(Thousands of euros)

**8. Securities at fair value through other comprehensive income (continued)**

	<i>30 June 2020</i> <i>(unaudited)</i>	<i>31 December</i> <i>2019</i>
<i>Pledged under repurchase agreements</i>		
<b>Listed debt securities at fair value through other comprehensive income</b>		
Corporate bonds		
Credit rating AAA	25,301	–
Credit rating from AA- to AA+	23,862	
Credit rating from A- to A+	9,247	–
<b>Corporate bonds</b>	<b>58,410</b>	<b>–</b>
<b>Total listed debt securities at fair value through other comprehensive income pledged under repurchase agreements</b>	<b>58,410</b>	<b>–</b>

An analysis of changes in the ECL related to securities at fair value through other comprehensive income for the six months ended 30 June 2020 and 30 June 2019 are as follows:

<b>Allowance for ECL at 1 January 2020</b>	<b>169</b>
New purchased or originated assets	178
Assets derecognized or redeemed	(206)
Changes to models and inputs used for ECL calculations	139
Foreign exchange differences	(3)
<b>Allowance for ECL at 30 June 2020 (unaudited)</b>	<b>277</b>
<b>Allowance for ECL at 1 January 2019</b>	<b>300</b>
New purchased or originated assets	31
Assets derecognized or redeemed	(91)
Foreign exchange differences	(4)
<b>Allowance for ECL at 30 June 2019 (unaudited)</b>	<b>236</b>

*Government bonds* comprise EUR- and USD-denominated securities issued and guaranteed by the Ministries of Finance of the countries. The bonds mature in 2024-2035 (31 December 2019: maturing in 2024-2031). The annual coupon rate for these bonds varies from 1.0% to 3.6% (31 December 2019: from 0.5% to 2.0%).

*Corporate bonds* comprise bonds issued by large companies and banks of the member countries of the Bank, as well as international companies and development banks with goals and missions similar to those of the Bank. The bonds mature in 2021-2028 (31 December 2019: maturing in 2020-2029). The annual coupon rate for these bonds varies from 0.0% to 8.0% (31 December 2019: from 0.0% to 8.0%).

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(Thousands of euros)

**9. Securities at amortized cost**

Securities at amortized cost comprise:

	<i>30 June 2020</i> <i>(unaudited)</i>	<i>31 December</i> <i>2019</i>
<b><i>Owned by the Group</i></b>		
<b>Listed debt securities at amortized cost</b>		
Government bonds of non-member countries		
<i>Credit rating AAA</i>	5,751	5,754
<b>Government bonds</b>	<b>5,751</b>	<b>5,754</b>
Corporate bonds:		
<i>Credit rating AAA</i>	19,084	41,597
<i>Credit rating AA</i>	4,498	4,527
<i>Credit rating A</i>	10,036	4,960
<i>Credit rating BBB</i>	–	35,817
<b>Corporate bonds</b>	<b>33,618</b>	<b>86,901</b>
Less: allowance for impairment of securities at amortized cost	(24)	(60)
<b>Listed debt securities at amortized cost</b>	<b>39,345</b>	<b>92,595</b>
<b><i>Pledged under repurchase agreements</i></b>		
<b>Listed debt securities at amortized cost</b>		
Corporate bonds		
<i>Credit AAA</i>	22,320	–
<i>Credit rating from BBB- to BBB+</i>	35,695	–
<b>Corporate bonds</b>	<b>58,015</b>	–
Less: allowance for impairment of securities at amortized cost	(122)	–
<b>Total listed debt securities at amortized cost pledged under repurchase agreements</b>	<b>57,893</b>	–

An analysis of changes in the ECL related to securities at amortized cost for the six months ended 30 June 2020 is as follows:

<b>Allowance for ECL at 1 January 2020</b>	<b>60</b>
New purchased or originated assets	73
Assets derecognized or redeemed	(85)
Changes to models and inputs used for ECL calculations	99
Foreign exchange differences	(1)
<b>Allowance for ECL at 30 June 2020 (unaudited)</b>	<b>146</b>

**Government bonds** comprise EUR-denominated securities issued and guaranteed by the Ministries of Finance of the countries. The bonds mature in 2040 (31 December 2019: 2040). The annual coupon rate for these bonds 0.5% (31 December 2019: 0.5%).

**Corporate bonds** comprise investment grade bonds issued by large companies and banks of the member countries of the Bank, as well as international companies and development banks with goals and missions similar to those of the Bank. The bonds mature in 2021-2029 (31 December 2019: 2021-2029). The coupon rate for these bonds varies from 0.6% to 2.2% (31 December 2019: 0.6% to 2.2%).

**10. Loans to banks**

During the six months ended 30 June 2020, the Group continued its lending activities, being guided by the key priorities of the Development Strategy of the IIB. The principal lending activity is to participate in financing of socially important infrastructure projects and to facilitate the development of small and medium-sized businesses and foreign trade in the member countries. The Group considers national development institutes, export and import banks and agencies, international financial organizations and development banks as its key business partners.

(Thousands of euros)

**10. Loans to banks (continued)**

During the six months ended 30 June 2020 and in 2019, the Group provided trade financing loans and long-term loans to borrowers operating in the following countries:

	<i>30 June 2020 (unaudited)</i>	<i>31 December 2019</i>
<b>Trade financing loans</b>		
Republic of Belarus	53,557	22,678
Mongolia	939	4,018
Armenia	625	625
<b>Trade financing loans</b>	<b>55,121</b>	<b>27,321</b>
<b>Long-term loans to banks</b>		
Socialist Republic of Vietnam	39,693	23,250
Republic of Cuba	38,686	43,106
Mongolia	18,122	48,659
Republic of Belarus	9,047	9,031
<b>Long-term loans to banks</b>	<b>105,548</b>	<b>124,046</b>
Less: allowance for impairment of loans to banks	(1,905)	(1,670)
<b>Loans to banks</b>	<b>158,764</b>	<b>149,697</b>

An analysis of changes in the ECL related to trade financing loans for the six months ended 30 June 2020 and 30 June 2019 are as follows:

<i>Trade financing loans</i>	<i>Stage 1</i>	<i>Total</i>
<b>Allowance for ECL at 1 January 2020</b>	<b>179</b>	<b>179</b>
New purchased or originated assets	20	<b>20</b>
Assets derecognized or redeemed (excluding write-offs)	(360)	<b>(360)</b>
Changes to models and inputs used for ECL calculations	666	<b>666</b>
<b>At 30 June 2020 (unaudited)</b>	<b>505</b>	<b>505</b>
<i>Trade financing loans</i>	<i>Stage 1</i>	<i>Total</i>
<b>Allowance for ECL at 1 January 2019</b>	<b>478</b>	<b>478</b>
New purchased or originated assets	439	<b>439</b>
Assets derecognized or redeemed (excluding write-offs)	(591)	<b>(591)</b>
A Changes to models and inputs used for ECL calculations	31	<b>31</b>
Foreign exchange differences	(1)	<b>(1)</b>
<b>At 30 June 2019 (unaudited)</b>	<b>356</b>	<b>356</b>

An analysis of changes in the ECL related to long-term loans to banks for the six months ended 30 June 2020 and 30 June 2019 are as follows:

<i>Long-term loans to banks</i>	<i>Stage 1</i>	<i>Total</i>
<b>Allowance for ECL at 1 January 2020</b>	<b>1,491</b>	<b>1,491</b>
New purchased or originated assets	22	<b>22</b>
Assets derecognized or redeemed (excluding write-offs)	(301)	<b>(301)</b>
Changes to models and inputs used for ECL calculations	194	<b>194</b>
Foreign exchange differences	(6)	<b>(6)</b>
<b>At 30 June 2020 (unaudited)</b>	<b>1,400</b>	<b>1,400</b>

*(Thousands of euros)***10. Loans to banks (continued)**

<i><b>Long-term loans to banks</b></i>	<i><b>Stage 1</b></i>	<i><b>Total</b></i>
<b>Allowance for ECL at 1 January 2019</b>	<b>1,407</b>	<b>1,407</b>
New purchased or originated assets	433	<b>433</b>
Assets derecognized or redeemed (excluding write-offs)	(321)	<b>(321)</b>
Foreign exchange differences	(10)	<b>(10)</b>
<b>At 30 June 2019 (unaudited)</b>	<b>1,509</b>	<b>1,509</b>

As at 30 June 2020, there were no overdue loans to banks (31 December 2019: no overdue).

**Modified and restructured loans to banks**

The Group derecognizes a financial asset, such as a loan to bank, when terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

During six months period ended 30 June 2020, the Group has modified the terms and conditions of loans to banks, including introduction of payment holidays, as part of the measures related to consequences of COVID-19 pandemic (31 December 2019: no modified nor restructured). The Group considered these modifications to be insignificant.

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*(Thousands of euros)***10. Loans to banks (continued)****Allowance for impairment of loans to banks**

A reconciliation of the allowance for ECL related to the impairment of loans to banks by country for the six months ended 30 June 2020 is as follows:

	<i>Mongolia</i>	<i>Socialist Republic of Vietnam</i>	<i>Republic of Cuba</i>	<i>Other</i>	<i>Total</i>
<b>Allowance for ECL at 1 January 2020</b>	<b>609</b>	<b>464</b>	<b>332</b>	<b>265</b>	<b>1,670</b>
Net charge/(reversal) of impairment allowance for ECL during the period	(181)	167	(41)	296	<b>241</b>
Foreign exchange differences	(3)	(4)	—	1	<b>(6)</b>
<b>At 30 June 2020 (unaudited)</b>	<b>425</b>	<b>627</b>	<b>291</b>	<b>562</b>	<b>1,905</b>

A reconciliation of the allowance for ECL related to the impairment of loans to banks by country for the six months ended 30 June 2019 is as follows:

	<i>Mongolia</i>	<i>Socialist Republic of Vietnam</i>	<i>Republic of Cuba</i>	<i>Other</i>	<i>Total</i>
<b>Allowance for ECL at 1 January 2019</b>	<b>673</b>	<b>257</b>	<b>543</b>	<b>412</b>	<b>1,885</b>
Net (reversal)/charge of impairment allowance for ECL during the period	301	(173)	5	(142)	<b>(9)</b>
Foreign exchange differences	(9)	(2)	—	—	<b>(11)</b>
<b>At 30 June 2019 (unaudited)</b>	<b>965</b>	<b>82</b>	<b>548</b>	<b>270</b>	<b>1,865</b>

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(Thousands of euros)

**10. Loans to banks (continued)****Analysis of collateral for loans to banks**

The following table provides an analysis of the portfolio of trade financing loans and long-term loans to banks by type of collateral as at 30 June 2020 and 31 December 2019.

	<b>30 June 2020 (unaudited)</b>		<b>31 December 2019</b>	
	<i>Loans to banks, net of allowance for impairment</i>	<i>Share in the total loans, %</i>	<i>Loans to banks, net of allowance for impairment</i>	<i>Share in the total loans, %</i>
State guarantees	38,394	24.2	42,774	28.6
Uncollateralized part of the loans	120,370	75.8	106,923	71.4
<b>Loans to banks</b>	<b>158,764</b>	<b>100.0</b>	<b>149,697</b>	<b>100.0</b>

The amounts shown in the table above represent the carrying amount of the portfolio of long-term loans to banks and do not necessarily represent the fair value of the collateral.

**Concentration of long-term loans to banks**

As at 30 June 2020, long-term loans and trade financing loans to seven banks (31 December 2019: six banks) with a total amount of loans to each of them exceeding 10% of total loans to banks were recorded on the Group's consolidated statement of financial position. As at 30 June 2020, the total amount of such major loans was EUR 134,566 thousand (31 December 2019: EUR 134,442 thousand) and allowances of EUR 1,468 thousand (31 December 2019: EUR 1,560 thousand) were made for them.

**11. Loans to customers**

The Group issued loans to customers operating in the following countries:

	<b>30 June 2020 (unaudited)</b>	<b>31 December 2019</b>
<b>Owned by the Group</b>		
<b>Loans to customers at amortized cost</b>		
Russian Federation	132,465	148,403
Romania	130,220	119,434
Slovak Republic	100,294	91,975
Republic of Bulgaria	84,671	87,069
Mongolia	59,590	26,468
Socialist Republic of Vietnam	35,919	32,563
Kingdom of the Netherlands	30,560	62,697
Republic of Ecuador	27,533	29,262
Republic of Panama	26,037	26,793
The Kingdom of Spain	25,104	25,083
Hungary	20,094	39,947
Grand Duchy of Luxembourg	20,035	20,035
USA	1,450	1,491
<b>Total loans to customers at amortized cost</b>	<b>693,972</b>	<b>711,220</b>
<b>Loans to customers at fair value through other comprehensive income</b>		
Hungary	40,176	–
Republic of Bulgaria	16,010	33,423
Romania	14,721	7,006
<b>Total loans to customers at fair value through other comprehensive income</b>	<b>70,907</b>	<b>40,429</b>
Less: allowance for impairment of loans to customers	(18,449)	(17,137)
<b>Loans to customers</b>	<b>746,430</b>	<b>734,512</b>

(Thousands of euros)

**11. Loans to customers (continued)**

Loans to customers at fair value through other comprehensive income comprise of loans with the legal form of corporate bonds and sovereign bonds. As at 30 June 2020, the sovereign bonds within loans to customers at fair value through other comprehensive income include T-bonds issued by Hungary with the carrying amount of EUR 40,176 thousands (31 December 2019: nil).

	<i>30 June 2020</i> <i>(unaudited)</i>	<i>31 December</i> <i>2019</i>
<b><i>Pledged under repurchase agreements</i></b>		
<b>Loans to customers at amortized cost</b>		
Kingdom of the Netherlands	29,900	–
<b>Total loans to customers at amortized cost pledged under repurchase agreements</b>	<b>29,900</b>	<b>–</b>
<b>Loans to customers at fair value through other comprehensive income</b>		
Republic of Bulgaria	14,389	–
Romania	1,929	–
<b>Total loans to customers at fair value through other comprehensive income pledged under repurchase agreements</b>	<b>16,318</b>	<b>–</b>
Less: allowance for impairment of loans to customers	(84)	–
<b>Loans to customers pledged under repurchase agreements</b>	<b>46,134</b>	<b>–</b>

Loans to customers at amortized cost and at fair value through other comprehensive income that are pledged under repurchase agreements comprise of corporate exposures with the legal form of bonds.

An analysis of changes in the ECL related to loans to customers at amortized cost for the six months ended 30 June 2020 and 30 June 2019 are as follows:

<i>Loans to customers at amortized cost</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<b>Allowance for ECL at 1 January 2020</b>	<b>2,055</b>	<b>765</b>	<b>14,317</b>	<b>17,137</b>
New purchased or originated assets	173	3	–	176
Assets derecognized or redeemed (excluding write-offs)	(575)	(42)	–	(617)
Changes to contractual cash flows due to modifications not resulting in derecognition	6			6
Changes to models and inputs used for ECL calculations	1,473	542	–	2,015
Foreign exchange differences	(10)	(1)	(173)	(184)
<b>At 30 June 2020 (unaudited)</b>	<b>3,122</b>	<b>1,267</b>	<b>14,144</b>	<b>18,533</b>
<i>Loans to customers at amortized cost</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<b>Allowance for ECL at 1 January 2019</b>	<b>2,029</b>	<b>329</b>	<b>14,693</b>	<b>17,051</b>
New purchased or originated assets	1,583	2	–	1,585
Assets derecognized or redeemed (excluding write-offs)	(2,198)	(41)	–	(2,239)
Changes to models and inputs used for ECL calculations	20	–	–	20
Foreign exchange differences	–	–	(190)	(190)
<b>At 30 June 2019 (unaudited)</b>	<b>1,434</b>	<b>290</b>	<b>14,503</b>	<b>16,227</b>

*(Thousands of euros)***11. Loans to customers (continued)**

An analysis of changes in the ECL related to loans to customers at fair value through other comprehensive income for the six months ended 30 June 2020 is as follows:

<i>Loans to customers at fair value through other comprehensive income</i>	<i>Stage 1</i>	<i>Total</i>
<b>Allowance for ECL at 1 January 2020</b>	<b>98</b>	<b>98</b>
New purchased or originated assets	28	<b>28</b>
Assets derecognized or redeemed (excluding write-offs)	(59)	<b>(59)</b>
Changes to models and inputs used for ECL calculations	198	<b>198</b>
<b>At 30 June 2020 (unaudited)</b>	<b>265</b>	<b>265</b>

The information on overdue loans to customers as at 30 June 2020 and 31 December 2019 is provided below:

	<i>30 June 2020 (unaudited)</i>	<i>31 December 2019</i>
Total loans with overdue principal and/or interest	27,219	14,317
Less: allowance for impairment of loans to customers	(14,640)	(14,317)
<b>Overdue loans to customers</b>	<b>12,579</b>	<b>–</b>

For the purposes of these interim condensed consolidated financial statements, a loan to a customer is considered overdue if at least one of the loan-related payments is past due at the reporting date. In this case, the amount of the overdue loan is the total amount due from the borrower, including the accrued interest income.

**Modified and restructured loans to customers**

The Group derecognizes a financial asset, such as a loan to customers, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

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(Thousands of euros)

**11. Loans to customers (continued)****Allowance for impairment of loans to customers**

A reconciliation of the allowance for ECL related to the impairment of loans to customers by country for the six months ended 30 June 2020 is as follows:

	<i>Russian Federation</i>	<i>Republic of Bulgaria</i>	<i>Romania</i>	<i>Slovak Republic</i>	<i>Hungary</i>	<i>Mongolia</i>	<i>Socialist Republic of Vietnam</i>	<i>Other</i>	<i>Total</i>
<b>Allowance for ECL at 1 January 2020</b>	<b>232</b>	<b>332</b>	<b>14,552</b>	<b>306</b>	<b>353</b>	<b>177</b>	<b>478</b>	<b>707</b>	<b>17,137</b>
Net charge/(reversal) of impairment allowance for ECL during the period	350	49	127	131	(297)	395	106	721	<b>1,582</b>
Foreign exchange differences	(5)	–	(175)	–	–	(1)	(3)	(2)	<b>(186)</b>
<b>At 30 June 2020 (unaudited)</b>	<b>577</b>	<b>381</b>	<b>14,504</b>	<b>437</b>	<b>56</b>	<b>571</b>	<b>581</b>	<b>1,426</b>	<b>18,533</b>

A reconciliation of the allowance for ECL related to the impairment of loans to customers by country for the six months ended 30 June 2019 is as follows:

	<i>Russian Federation</i>	<i>Republic of Bulgaria</i>	<i>Romania</i>	<i>Slovak Republic</i>	<i>Mongolia</i>	<i>Socialist Republic of Vietnam</i>	<i>Other</i>	<i>Total</i>
<b>Allowance for ECL at 1 January 2019</b>	<b>70</b>	<b>692</b>	<b>14,930</b>	<b>365</b>	<b>701</b>	<b>93</b>	<b>200</b>	<b>17,051</b>
Net (reversal)/charge of impairment allowance for ECL during the period	(4)	(203)	425	(31)	(698)	(77)	(46)	<b>(634)</b>
Foreign exchange differences	–	–	(187)	–	–	(1)	(2)	<b>(190)</b>
<b>At 30 June 2019 (unaudited)</b>	<b>66</b>	<b>489</b>	<b>15,168</b>	<b>334</b>	<b>3</b>	<b>15</b>	<b>152</b>	<b>16,227</b>

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(Thousands of euros)

**11. Loans to customers (continued)****Analysis of collateral for loans to customers**

The following table provides an analysis of the customer loan portfolio, net of allowance for impairment, by types of collateral as at 30 June 2020 and 31 December 2019:

	<b>30 June 2020 (unaudited)</b>		<b>31 December 2019</b>	
	<i>Loans to customers less impairment allowance</i>	<i>Share in the total loans, %</i>	<i>Loans to customers less impairment allowance</i>	<i>Share in the total loans, %</i>
Pledge of real property (mortgage) and title	104,368	13.2	97,566	13.3
Pledge of shares	94,843	12.0	111,703	15.2
Pledge of equipment and goods in turnover	89,521	11.3	77,081	10.5
Corporate guarantees	67,160	8.5	71,199	9.7
State guarantees	52,212	6.6	54,670	7.4
Pledge of vehicles	13,073	1.6	14,137	1.9
Pledge of rights of claim	4,834	0.6	6,591	0.9
Uncollateralized part of the loans	366,553	46.2	301,565	41.1
<b>Loans to customers</b>	<b>792,564</b>	<b>100.0</b>	<b>734,512</b>	<b>100.0</b>

The amounts shown in the table above represent the carrying amount of the customer loan portfolio and do not necessarily represent the fair value of the collateral. As at 30 June 2020, the Group has not recognized a loss allowance of loans to eight borrowers (31 December 2019: seven borrowers) because of the collateral. These loans comprised EUR 154,826 thousand (31 December 2019: EUR 167,504 thousand) in total.

**Concentration of loans to customers**

As at 30 June 2020, one loans to customers (31 December 2019: one loan) with a total amount exceeding 10% of total loans to customers was recorded on the Group's consolidated statement of financial position. As at 30 June 2020, this loan comprised EUR 89,692 thousand (31 December 2019: EUR 89,667 thousand) in total and no impairment allowances were made for them (31 December 2019: no allowances).

**Analysis of loans to customers by industry**

The Group issued loans to borrowers operating in the following industries:

	<b>30 June 2020 (unaudited)</b>	<b>31 December 2019</b>
Production and transmission of electricity	201,628	199,771
Communications	115,086	107,510
Leasing	107,855	125,496
Financial services	64,473	72,248
Public administration	40,176	–
Real estate	37,680	37,785
Metallurgic industry	33,685	29,688
Textile manufacture	29,772	–
Retail	27,840	28,716
Automobile industry	25,104	25,083
Mining	21,393	21,972
Manufacturing of refined oil products	20,094	20,094
Public health	20,035	20,035
Agriculture	16,229	11,807
Manufacturing of electrical equipment	14,144	14,317
Production of pharmaceutical products	13,162	12,198
Food and beverage	11,959	13,945
Land transport	6,211	6,191
Postal activities	4,571	4,793
	<b>811,097</b>	<b>751,649</b>
Less: allowance for impairment of loans to customers	(18,533)	(17,137)
<b>Loans to customers</b>	<b>792,564</b>	<b>734,512</b>

(Thousands of euros)

**12. Other assets and liabilities**

Other assets comprise:

	<i>30 June 2020 (unaudited)</i>	<i>31 December 2019</i>
<b>Financial assets</b>		
Accounts receivable on business operations	2,397	398
Settlements on bank transactions	344	2,026
Guarantee payments	11	11
Other financial assets	569	555
	<b>3,321</b>	<b>2,990</b>
Less allowance for impairment of financial assets	(246)	(1,763)
<b>Total financial assets</b>	<b>3,075</b>	<b>1,227</b>
<b>Non-financial assets</b>		
Advances issued	261	659
Assets held for sale – real estate	89	89
Other non-financial assets	1,189	861
<b>Total non-financial assets</b>	<b>1,539</b>	<b>1,609</b>
<b>Other assets</b>	<b>4,614</b>	<b>2,836</b>

An analysis of changes in ECL allowances during the six months ended 30 June 2020 and 30 June 2019 are as follows:

<i>Financial assets</i>	<i>Total</i>
<b>Allowance for ECL at 1 January 2020</b>	<b>1,763</b>
New purchased or originated assets	3
Assets derecognized or redeemed (excluding write-offs)	(31)
Changes to models and inputs used for ECL calculations	4
Amounts written off	(1,304)
Foreign exchange differences	(189)
<b>At 30 June 2020 (unaudited)</b>	<b>246</b>
	<i>Total</i>
<b>Allowance for ECL at 1 January 2019</b>	<b>1,527</b>
New purchased or originated assets	8
Assets derecognized or redeemed (excluding write-offs)	(8)
Foreign exchange differences	155
<b>At 30 June 2019 (unaudited)</b>	<b>1,682</b>

Other liabilities comprise:

	<i>30 June 2020 (unaudited)</i>	<i>31 December 2019</i>
<b>Financial liabilities</b>		
Other accounts payable on business operations	1,383	1,839
Other accounts payable on bank transactions	574	698
<b>Total financial liabilities</b>	<b>1,957</b>	<b>2,537</b>
<b>Non-financial liabilities</b>		
Settlements with employees	7,479	6,184
Allowance for ECL on credit-related commitments	707	871
Other non-financial liabilities	230	682
<b>Total non-financial liabilities</b>	<b>8,416</b>	<b>7,737</b>
<b>Other liabilities</b>	<b>10,373</b>	<b>10,274</b>

(Thousands of euros)

**12. Other assets and liabilities (continued)**

The Group applies IAS 19 *Employee Benefits* to account for its pension liabilities. As at 30 June 2020, the Bank has a defined benefit plan including two subprograms – compulsory and voluntary. The compulsory insurance subprogram applies to all employees of the Bank. Pursuant to the regulation, benefits under the compulsory subprogram are made of contributions calculated as a certain fixed percentage of the employee's salary.

Employees can join the voluntary insurance subprogram any time at their convenience, and have the right to withdraw any time. Under the program, the Bank co-finances employees' contributions. The voluntary part of the Bank's contributions depends on the related voluntary contributions made by the employee and may not exceed a certain percentage of the employee's salary.

As at 30 June 2020, the Group's pension liabilities of EUR 4,303 thousand (31 December 2019: EUR 3,647 thousand) were included in non-financial liabilities (settlements with employees) in the consolidated statement of financial position. Pension expenses for six months 2020 in the amount of EUR 660 thousand (six month 2019: EUR 636 thousand) were recorded in the interim condensed consolidated income statement principally as "Employee compensations and employment taxes" within "General and administrative expenses".

**13. Allowances for expected credit losses**

The table below shows (decrease)/increase of allowances for ECL on financial instruments recorded in profit or loss for the six months ended 30 June 2020 and six months ended 30 June 2019.

	<i>Note</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Cash and cash equivalents	5	1	–	–	<b>1</b>
Securities at fair value through other comprehensive income	8	111	–	–	<b>111</b>
Securities at amortized cost	9	87	–	–	<b>87</b>
Loans to banks	10	241	–	–	<b>241</b>
Loans to customers	11	1,244	503	–	<b>1,747</b>
Other financial assets	12	3	–	(27)	<b>(24)</b>
Non-financial liabilities (allowance for ECL on credit-related commitments)	12, 18	(148)	–	–	<b>(148)</b>
<b>Total allowance for ECL for six months ended 30 June 2020 (unaudited)</b>		<b>1,539</b>	<b>503</b>	<b>(27)</b>	<b>2,015</b>
	<i>Note</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Total</i>	
Securities at fair value through other comprehensive income	8	(60)	–	<b>(60)</b>	
Loans to banks	10	(9)	–	<b>(9)</b>	
Loans to customers	11	(596)	(38)	<b>(634)</b>	
Financial assets	12	(2)	–	<b>(2)</b>	
Non-financial liabilities (allowance for ECL on credit-related commitments)	12, 18	429	–	<b>429</b>	
<b>Total allowance for ECL for six months ended 30 June 2019</b>		<b>(238)</b>	<b>(38)</b>	<b>(276)</b>	

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(Thousands of euros)

**13. Allowances for expected credit losses (continued)**

Movements in allowances for ECL on financial instruments for the six months ended 30 June 2020 and 31 December 2019 were as follows:

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<b>Allowance for ECL at 1 January 2020</b>	<b>4,861</b>	<b>832</b>	<b>51,042</b>	<b>56,735</b>
New purchased or originated assets	697	3	–	<b>700</b>
Assets derecognized or redeemed (excluding write-offs)	(2,044)	(42)	(27)	<b>(2,113)</b>
Changes to contractual cash flows due to modifications not resulting in derecognition	6	–	–	<b>6</b>
Changes in models and inputs used for ECL assessment	2,880	542	–	<b>3,422</b>
Amounts written off	–	–	(1,304)	<b>(1,304)</b>
Translation differences	(37)	(1)	(361)	<b>(399)</b>
<b>Total allowance for ECL for six months ended 30 June 2020 (unaudited)</b>	<b>6,363</b>	<b>1,334</b>	<b>49,350</b>	<b>57,047</b>
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<b>Allowance for ECL at 1 January 2019</b>	<b>5,901</b>	<b>396</b>	<b>51,185</b>	<b>57,482</b>
New purchased or originated assets	6,438	3	27	<b>6,468</b>
Assets derecognized or redeemed (excluding write-offs)	(9,234)	(41)	(2)	<b>(9,277)</b>
Transfers to Stage 2	(6)	6	–	<b>–</b>
Effect on ECL at the year-end due to transfers between stages during the year	–	468	–	<b>468</b>
Changes in models and inputs used for ECL assessment	1,762	–	–	<b>1,762</b>
Translation differences	–	–	(168)	<b>(168)</b>
<b>At 31 December 2019</b>	<b>4,861</b>	<b>832</b>	<b>51,042</b>	<b>56,735</b>

**14. Due to banks and other financial institutions**

Due to banks and other financial institutions are presented based on contractual terms and include the following items:

	<i>30 June 2020 (unaudited)</i>	<i>31 December 2019</i>
<b>Due to banks up to 1 year</b>		
Repurchase agreements	31,362	–
Term deposits of banks and other financial institutions	35,805	48,410
<b>Total due to banks up to 1 year</b>	<b>67,167</b>	<b>48,410</b>
<b>Due to banks over 1 year</b>		
Repurchase agreements	95,176	–
<b>Total due to banks up to 1 year</b>	<b>95,176</b>	<b>–</b>
<b>Due to banks and other financial institutions</b>	<b>162,343</b>	<b>48,410</b>

The Group performs daily monitoring of the repurchase agreements and the value of collateral when placing/returning additional collateral, if necessary.

**Concentration of deposits from banks and other financial institutions**

As at 30 June 2020, the Group has three counterparties (31 December 2019: two counterparties) each accounting for over 10% of the Group's total deposits from banks and other financial institutions in the total amount of EUR 126,538 thousand (31 December 2019: EUR 48,000 thousand).

(Thousands of euros)

**15. Long-term loans of banks**

Long-term loans of banks comprise:

	<i>30 June 2020 (unaudited)</i>	<i>31 December 2019</i>
Loans of banks	64,183	33,692
SSD	17,018	23,043
<b>Long-term loans of banks</b>	<b>81,201</b>	<b>56,735</b>

On 19 March 2018, the Group received the first tranche from the BRICS New Development Bank in the amount of USD 12.5 million (EUR 10,273 thousand) under the loan agreement of USD 50.0 million. On 17 July 2018, the Group received the second tranche in the amount of USD 12.5 million (EUR 10,674 thousand). On 6 August 2019, the Group received the third tranche in the amount of USD 12.5 million (EUR 11,147 thousand). On 23 March 2020, the Group received the fourth tranche in the amount of USD 12.5 million (EUR 11,681 thousand).

On 14 April 2020 the Group received EUR 20.0 million according to the bilateral loan facility with ROSBANK (Societe Generale Group).

In 2017, the Group issued SSD debentures (Schuldscheindarlehen) in the Western European market in the total amount of EUR 23,000 thousand. On 6 April 2020 the Group repaid tranche in amount of EUR 6.0 million.

**16. Debt securities issued**

Debt securities issued comprise:

	<i>Interest rate, % p.a.</i>	<i>Maturity</i>	<i>30 June 2020 (unaudited)</i>	<i>31 December 2019</i>
RUB-denominated bonds	0.01-8.15	2024-2027	307,044	220,138
RON-denominated bonds	3.70-4.55	2020-2022	252,407	230,688
EUR-denominated bonds	1.50-1.59	2020-2021	141,377	140,169
HUF-denominated bonds	1.25-2.00	2022	132,705	143,094
CZK-denominated bonds	1.24-1.48	2021	79,007	59,448
<b>Debt securities issued</b>			<b>912,540</b>	<b>793,537</b>

On 19 May 2020, the Group had tapped the Russian market second time and placed RUB denominated bonds series BO-001P-04 in the amount of RUB 7 billion (EUR 88,230 thousand) with 3 year maturity and fixed coupon rate at 6.75% p.a.

On 19 May 2020, the Group had executed second transaction under the MTN program in the amount of CZK 621 million (EUR 22,770 thousand) and three years maturity with coupon set at 3m Pribor + 90 bps. Both bonds were listed on the Euronext Dublin.

On 29 April 2020, the Group had placed its RUB denominated bonds. The series BO-001P-02 has been issued in the amount of RUB 7 billion (EUR 87,320 thousand) with 5 year maturity and fixed coupon rate at 7.75% p.a. The series BO-001P-03 has been issued in the amount of RUB 5 billion (EUR 62,368 thousand) with 5 year maturity and fixed coupon rate at 7.75% p.a.

On 16 April 2020, the Group had executed debut transaction under newly registered MTN program amounting to RON 110 million (EUR 22,678 thousand) with one year maturity. The fixed coupon of the issuance stands at 4.55%.

On 12 March 2020, the Group had repurchased its RUB-denominated bonds series 01 in the total amount of RUB 9,987,876 thousand (EUR 124,155 thousand) under regular Issuer's put option.

*(Thousands of euros)***16. Debt securities issued (continued)**

On 29 April 2019, the Group repurchased its RUB-denominated bonds series 02 under regular put-option in the amount of RUB 2,999,999 thousand (EUR 41,594 thousand). New interest rate was set at 0.01% p.a. for the 9<sup>th</sup> coupon period. The Group kept the interest rate at 0.01% p.a. by the maturity date of the bonds series 02.

On 15 April 2019, the Group closed a tap to the existing CZK 750 million (EUR 29,275 thousand) Floating Rate Notes issued last year and due on April 2021. The tap amounted to CZK 750 million with pricing set at a discounted margin of 3m Pribor + 55 bps.

On 22 March 2019, the Group placed its debut bond issuance on the Budapest Stock Exchange in the amount of HUF 24.7 billion (EUR 78,497 thousand) mature in 3 years. The coupon rate was fixed at 2.00% p.a. The bond has been placed with the weighted average yield of 1.98%.

At the issue dates of the non-EUR-denominated bonds, the Group entered into cross-currency interest rate swaps for the purpose of managing currency risks (Note 7) and exchanging interest expense from debt securities issued, denominated in RUB, RON, HUF, CZK to the currency required by the Group (EUR, USD) to finance credit projects in the required currency. The Group applies hedge accounting for the forward foreign exchange risk of the bond issue in Romanian lei (RON) placed on 1 November 2019, of the bond issue in Hungarian forint (HUF) placed on 18 October 2019, of the bonds issue in Russian ruble (RUB) placed on 29 April 2020 and 19 May 2020 and of the bond issue in Czech korunas (CZK) placed on 19 May 2020. The cash-flows of the fixed rate securities issued by the Group are exposed to the change in the EUR/HUF, EUR/RON, EUR/RUB and EUR/CZK spot and forward foreign exchange rates. The forward foreign exchange risk related to these securities are hedged with cross-currency interest rate swap ("CCIRS") transactions, resulting in a decrease in forward foreign exchange exposure of issued securities. The effects of using cross-currency interest rate swaps are disclosed in Notes 20 and 21.

The Group primarily used the proceeds from issuance of debt instruments and placement of bonds to expand its loan portfolio and establish additional liquidity buffers as a measure to mitigate the effects of COVID-19 pandemics and related uncertainties on global financial markets.

**17. Equity****Subscribed and paid-in capital**

On 18 August 2018, new statutory documents of the International Investment Bank entered into force. Pursuant to the amended statutory documents, the Bank's authorized capital amounts to EUR 2,000,000 thousand (31 December 2019: EUR 2,000,000 thousand), which represents the Bank's equity stated in the Agreement on the Establishment of the International Investment Bank. The Bank's member countries make contributions to the Bank's equity pursuant to their shares stipulated in the Agreement.

As at 30 June 2020, the unpaid portion of the Bank's authorized capital consists of the callable capital (contributions that have not been made yet by the Bank's member countries) in the amount of EUR 748,745 thousand (31 December 2019: EUR 784,888 thousand) and the amount of unallocated equity contributions (quotas that are available to new or existing Member countries) totaling EUR 875,500 thousand (31 December 2019: EUR 875,500 thousand).

During the six months of 2020, the Bank's member countries made additional contributions to the Bank's equity in total amount EUR 36,143 thousand (the Government of Hungary: EUR 15,503 thousand and the Government of Russian Federation: EUR 20,640 thousand). The paid-in capital of the International Investment Bank totaled EUR 375,755 thousand (31 December 2019: EUR 339,612 thousand).

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(Thousands of euros)

**17. Equity (continued)****Revaluation reserve for securities at fair value through other comprehensive income, cash flow hedge reserve and revaluation reserve for property and equipment**

Changes in the revaluation reserve for securities at FVOCI, cash flow hedge reserve, and revaluation reserve for property and equipment were as follows:

	<i>Revaluation reserve for securities</i>	<i>Cash flow hedge reserve</i>	<i>Revaluation reserve for property and equipment</i>
<b>At 1 January 2019</b>	<b>(7,366)</b>	–	<b>13,748</b>
Net change in the fair value of securities at FVOCI	11,849	–	–
Change in the allowance for ECL on securities at FVOCI	(64)	–	–
Reclassification of accumulated gains from disposal of debt securities at fair value through other comprehensive income to the interim condensed consolidated income statement	(1,715)	–	–
<b>At 30 June 2019 (unaudited)</b>	<b>2,704</b>	–	<b>13,748</b>
<b>At 1 January 2020</b>	<b>6,157</b>	<b>(809)</b>	<b>10,861</b>
Net change in the fair value of securities at FVOCI	2,922	–	–
Change in the allowance for ECL on securities at FVOCI	277	–	–
Reclassification of accumulated gains from disposal of debt securities at fair value through other comprehensive income to the interim condensed consolidated income statement	(5,462)	–	–
Effective portion of changes in fair value arising from CCIRS	–	6,858	–
Net amount reclassified from net losses from operations with foreign currencies and derivatives to other interest expense	–	(3,425)	–
Net losses from foreign currencies and derivatives	–	(234)	–
<b>At 30 June 2020 (unaudited)</b>	<b>3,894</b>	<b>2,390</b>	<b>10,861</b>

*Revaluation reserve for securities*

The revaluation reserve for securities records fair value changes of financial assets at FVOCI.

*Revaluation reserve for property and equipment*

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in equity.

**18. Commitments and contingencies****Legal**

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or the results of future operations of the Group. In accordance with the Agreement on the Establishment of the Bank, its assets (irrespective of their location) enjoy immunities from any administrative and legal claims.

The Group takes all necessary legal and other actions to collect the bad debt and to realize respective repossession rights. When the estimated amount of costs resulting from the Group's further actions to collect bad debt and/or realize respective repossession rights is higher than the amount collected and also when the Group holds necessary and sufficient documents and/or regulations issued by the governmental authorities, it decides to write off such bad debt against the respective provision.

(Thousands of euros)

**18. Commitments and contingencies (continued)****Insurance**

The Group obtained insurance coverage for a group of buildings, equipment and car park as well as liability insurance against damages caused by operating assets of a hazardous nature. However, the Group did not obtain insurance coverage related to temporarily discontinued operations or the Group's obligations to third parties.

**Taxation**

The IIB is an international institution operating on the basis of the Intergovernmental Agreement on the Establishment of the International Investment Bank (the "Agreement") and the Statute that constitutes an integral part of the Agreement. Pursuant to the Agreement, the Bank and its Branch are exempt from any national or local direct taxes or duties effective in the territories of its member states.

**Credit-related commitments**

At any time the Group may have outstanding commitments to extend loans. These commitments take the form of approved loan agreements. As at 30 June 2020, credit-related commitments of the Group comprised credit-related commitments such as undrawn loan facilities, guarantees and reimbursement obligations, including under the Trade Financing Program.

The primary purpose of credit-related commitments is to ensure that funds are available to customers as required. Guarantees issued, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Reimbursement obligations, which are irrevocable reimbursement obligations of the Group issued on behalf of banks issuing documentary letters of credit that are accepted and paid by foreign partner banks up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing. Undrawn loan facilities represent unused portions of funds to be issued as loans.

Credit-related commitments are presented in the table below as at 30 June 2020 and 31 December 2019:

	<i>30 June 2020 (unaudited)</i>	<i>31 December 2019</i>
Undrawn loan facilities	92,064	92,352
Guarantees issued	56,437	73,669
Reimbursement obligations	9,119	17,032
	<b>157,620</b>	<b>183,053</b>
Less: allowance for impairment of credit-related commitments	(707)	(871)
<b>Credit-related commitments</b>	<b>156,913</b>	<b>182,182</b>

An analysis of changes in the ECL related to undrawn loan facilities for the six months ended 30 June 2020 and 30 June 2019 are as follows:

<i>Undrawn loan facilities</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Total</i>
<b>Allowance for ECL at 1 January 2020</b>	<b>62</b>	<b>67</b>	<b>129</b>
New purchased or originated credit-related commitments	12	–	12
Credit-related commitments derecognized or redeemed (excluding write-offs)	(46)	–	(46)
Changes to models and inputs used for ECL calculations	83	–	83
<b>At 30 June 2020 (unaudited)</b>	<b>111</b>	<b>67</b>	<b>178</b>

(Thousands of euros)

**18. Commitments and contingencies (continued)****Credit-related commitments (continued)**

<i>Undrawn loan facilities</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Total</i>
<b>Allowance for ECL at 1 January 2019</b>	<b>359</b>	<b>67</b>	<b>426</b>
New purchased or originated credit-related commitments	283	–	<b>283</b>
Credit-related commitments derecognized or redeemed (excluding write-offs)	(451)	–	<b>(451)</b>
Changes to models and inputs used for ECL calculations	229	–	<b>229</b>
Foreign exchange differences	1	–	<b>1</b>
<b>At 30 June 2019 (unaudited)</b>	<b>421</b>	<b>67</b>	<b>488</b>

An analysis of changes in the ECL related to guarantees issued for the six months ended 30 June 2020 and 30 June 2019 are as follows:

<i>Guarantees issued</i>	<i>Stage 1</i>	<i>Total</i>
<b>Allowance for ECL at 1 January 2020</b>	<b>588</b>	<b>588</b>
New purchased or originated credit-related commitments	146	<b>146</b>
Credit-related commitments derecognized or redeemed (excluding write-offs)	(269)	<b>(269)</b>
Foreign exchange differences	(16)	<b>(16)</b>
<b>At 30 June 2020 (unaudited)</b>	<b>449</b>	<b>449</b>

<i>Guarantees issued</i>	<i>Stage 1</i>	<i>Total</i>
<b>Allowance for ECL at 1 January 2019</b>	<b>928</b>	<b>928</b>
New purchased or originated credit-related commitments	1,254	<b>1,254</b>
Credit-related commitments derecognized or redeemed (excluding write-offs)	(791)	<b>(791)</b>
<b>At 30 June 2019 (unaudited)</b>	<b>1,391</b>	<b>1,391</b>

An analysis of changes in the ECL related to reimbursement obligations for the six months ended 30 June 2020 and 30 June 2019 are as follows:

<i>Reimbursement obligations</i>	<i>Stage 1</i>	<i>Total</i>
<b>Allowance for ECL at 1 January 2020</b>	<b>154</b>	<b>154</b>
New purchased or originated credit-related commitments	39	<b>39</b>
Credit-related commitments derecognized or redeemed (excluding write-offs)	(137)	<b>(137)</b>
Changes to models and inputs used for ECL calculations	24	<b>24</b>
<b>At 30 June 2020 (unaudited)</b>	<b>80</b>	<b>80</b>

<i>Reimbursement obligations</i>	<i>Stage 1</i>	<i>Total</i>
<b>Allowance for ECL at 1 January 2019</b>	<b>398</b>	<b>398</b>
New purchased or originated credit-related commitments	38	<b>38</b>
Credit-related commitments derecognized or redeemed (excluding write-offs)	(221)	<b>(221)</b>
Changes to models and inputs used for ECL calculations	88	<b>88</b>
<b>At 30 June 2019 (unaudited)</b>	<b>303</b>	<b>303</b>

(Thousands of euros)

**19. Leases****Group as lessor**

The Group provides its investment property for operating leases. As at 30 June 2020, the Group's non-cancellable operating lease rentals amount to EUR 1,891 thousand and will be settled within 1 month – 1 year EUR 584 thousand and 1-2 years EUR 1,307 thousand (31 December 2019: EUR 3,999 thousand and will be settled 1 month – 1 year EUR 2,099 thousand and 1-3 years EUR 1,900 thousand).

**20. Interest income and interest expenses**

Net interest income comprises:

	<i>30 June 2020</i> <i>(unaudited)</i>	<i>30 June 2019</i> <i>(unaudited)</i>
<b>Interest income</b>		
<i>Interest income calculated using the EIR method</i>		
Loans to customers	15,106	15,532
Loans to banks	3,039	4,191
Securities at fair value through other comprehensive income	2,562	3,418
Securities at amortized cost	655	411
Deposits with banks and other financial institutions, including cash and cash equivalents	199	167
Other	4	2
<i>Other interest income</i>		
Cross-currency interest rate swaps covering long-term currency risks	9,214	9,267
<b>Total interest income</b>	<b>30,779</b>	<b>32,988</b>
<b>Interest expenses</b>		
<i>Interest expenses calculated using the EIR method</i>		
Debt securities issued	(15,265)	(16,628)
Long-term loans of banks	(638)	(839)
Current customer accounts	(125)	(107)
Due to banks and other financial institutions	61	(15)
Other	(493)	(56)
<i>Other interest expenses</i>		
Cross-currency interest rate swaps covering long-term currency risks	(5,409)	(4,169)
<b>Total interest expenses</b>	<b>(21,869)</b>	<b>(21,814)</b>
<b>Net interest income</b>	<b>8,910</b>	<b>11,174</b>

**21. Net losses from operations with foreign currencies and derivatives**

Net losses from operations with foreign currencies and derivatives comprise:

	<i>30 June 2020</i> <i>(unaudited)</i>	<i>30 June 2019</i> <i>(unaudited)</i>
<b>Derivative financial instruments and operations with foreign currencies</b>		
Net losses from operations with foreign currencies and derivatives	(24,002)	(5,957)
Net gains from revaluation of derivative financial instruments	11,459	14,342
<b>Total derivative financial instruments and operations with foreign currencies</b>	<b>(12,543)</b>	<b>8,385</b>
<b>Translation differences</b>		
Net gains/(losses) from revaluation of assets and liabilities in foreign currencies	11,334	(10,593)
<b>Net losses from operations in foreign currencies and with derivatives</b>	<b>(1,209)</b>	<b>(2,208)</b>

*(Thousands of euros)***22. General and administrative expenses**

General and administrative expenses comprise:

	<i>30 June 2020</i> <i>(unaudited)</i>	<i>30 June 2019</i> <i>(unaudited)</i>
Employee compensations and employment taxes	6,390	6,026
IT expenses, inventory and occupancy expenses	867	861
Depreciation and disposal of property, equipment and intangible assets	853	999
Expenses related to business travel, representative and accommodation expenses	148	339
Professional services	84	102
Other	209	218
<b>General and administrative expenses</b>	<b>8,551</b>	<b>8,545</b>

For the six months ended 30 June 2019 general and administrative expenses include a one-off impact of EUR 216 thousand related to the relocation of Bank's headquarters from Russia to Hungary.

**23. Risk management****Risk management framework**

The Group's risk management policy is based on the conservative assessment approach and is mainly aimed at the mitigation of the adverse impact of risks on the Group's results, i.e. on the safety and reliability of fund allocation while maintaining the reasonable level of profitability. The conservative assessment approach assumes that the Group does not enter into potential transactions with a high or undeterminable risk level, regardless of profitability.

The Group's risk management activities are intended to:

- ▶ Identify, analyze and manage risks faced by the Group;
- ▶ Establish ratios and limits that restrict the level of the appropriate types of risks;
- ▶ Monitor the level of the risk and its compliance with established limits;
- ▶ Develop and implement regulative and methodological documents as well as software applications that ensure professional risk management for the bank transactions.

Risk management policies and procedures are reviewed regularly to reflect changing circumstances on global financial markets.

**Risk management system**

Integrated into the whole vertical organizational structure of the Group and all areas of the Group's activities, the risk management system makes it possible to identify in a timely manner and effectively manage different types of risks.

Risk management involves all of the Group's divisions in evaluating, assuming, and controlling risks ("Three lines of defense"):

- ▶ Risk-taking (1<sup>st</sup> line of defense): the Group's divisions directly preparing and conducting transactions are involved in the identification, assessment, and monitoring of risks and comply with internal regulations on risk management, as well as give due consideration to the risk level in the preparation of transactions.
- ▶ Risk management (2<sup>nd</sup> line of defense): the 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.
- ▶ Internal audit (3<sup>rd</sup> line of defense): independent quality assessment for existing risk management processes, identification of violations, and proposals for the improvement of the risk management system.



*(Thousands of euros)***23. Risk management (continued)****Risk management system (continued)**

The Group's operations are managed taking into account the level of the risk appetite approved by the Board of Directors and its integration into a system of limits and restrictions ensuring the acceptable level of risk for aggregated positions, transparent distribution of the total risk limit among the activities of the Group.

The Group identifies the following major risks inherent in its various activities:

- ▶ Credit risk;
- ▶ Liquidity risk;
- ▶ Market risk;
- ▶ Operational risk.

**Credit risk**

Credit risk is the risk that the Group will incur a loss because its counterparty fails to discharge its contractual financial obligations to the Group, or discharges them in an untimely fashion or not in full. Credit risk arises principally from loans and advances to customers and banks and other on and off balance sheet credit exposures. For risk reporting purposes, the Group considers and consolidates all elements of potential credit risk exposures such as individual borrower or counterparty default risk.

The Group assesses credit quality of financial instruments in accordance with IFRS 9 and based on 3 quality categories: – quality category I – standards financial instruments, quality category II – financial instruments with significant increase in credit risk, quality category III – impaired financial instruments. The credit quality is based on the assessment of the customer's financial position, payment discipline, credit history, compliance with its business plan and production discipline, additional characteristics such as management quality, compliance with other terms and conditions of the loan agreement, strength of positions in the market, competitive potential, administrative resources, industry specifics and country rating, and other available information.

Deposit contracts with banks and other financial institutions, securities at fair value through other comprehensive income and securities at amortized cost are concluded with counterparties with acceptable credit ratings assigned by such internationally recognized rating agencies as Standard & Poor's, Fitch and Moody's.

The tables below provide an analysis of the Group's internal expected credit loss rating scale as of 30 June 2020 and how it correspond to the external ratings of the S&P credit rating service.

<b>Internal assessment</b>	<b>External ratings equivalent</b>	<b>Internal ratings equivalent</b>
Excellent	AAA-AA-	A1-A3
Very strong	A+-A-	A4-A6
Strong	BBB+-BBB-	A7-A9
Good	BB+-BB-	B1-B3
Fair	B+-B-	B4-B6
Special attention	CCC+-CCC-	C1-C3
Expected loss	CC-D	SD-D

(Thousands of euros)

**23. Risk management (continued)****Credit risk (continued)**

The table provides overview of the exposure amount and allowance for credit losses by long-term loans to banks and trade financing loans (Note 10) and loans to customers (Note 11) class broken down into stages as per IFRS 9 requirements as at 30 June 2020 and 31 December 2019:

<i>30 June 2020 (unaudited)</i>		<i>Amount</i>			<i>Allowance for impairment</i>			
<i>Internal risk rating category</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<b>Trade financing loans and long-term loans to banks</b>								
Good	21,579	–	–	<b>21,579</b>	209	–	–	<b>209</b>
Fair	100,404	–	–	<b>100,404</b>	1,404	–	–	<b>1,404</b>
Special attention	38,686	–	–	<b>38,686</b>	292	–	–	<b>292</b>
<b>Loans to customers at amortized cost</b>								
Strong	145,073	–	–	<b>145,073</b>	101	–	–	<b>101</b>
Good	318,667	–	–	<b>318,667</b>	1,222	–	–	<b>1,222</b>
Fair	192,055	–	–	<b>192,055</b>	1,549	–	–	<b>1,549</b>
Special attention	27,604	26,037	–	<b>53,641</b>	250	975	–	<b>1,225</b>
Expected loss	–	292	14,144	<b>14,436</b>	–	292	14,144	<b>14,436</b>
<b>Loans to customers at fair value through other comprehensive income</b>								
Strong	40,176	–	–	<b>40,176</b>	30	–	–	<b>30</b>
Good	30,399	–	–	<b>30,399</b>	59	–	–	<b>59</b>
Fair	16,650	–	–	<b>16,650</b>	176	–	–	<b>176</b>
	<b>931,293</b>	<b>26,329</b>	<b>14,144</b>	<b>971,766</b>	<b>5,292</b>	<b>1,267</b>	<b>14,144</b>	<b>20,703</b>
<hr/>								
<i>31 December 2019</i>		<i>Amount</i>			<i>Allowance for impairment</i>			
<i>Internal risk rating category</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<b>Trade financing loans and long-term loans to banks</b>								
Good	5,022	–	–	<b>5,022</b>	48	–	–	<b>48</b>
Fair	103,238	–	–	<b>103,238</b>	1,290	–	–	<b>1,290</b>
Special attention	43,107	–	–	<b>43,107</b>	332	–	–	<b>332</b>
<b>Loans to customers at amortized cost</b>								
Strong	147,141	–	–	<b>147,141</b>	37	–	–	<b>37</b>
Good	320,577	–	–	<b>320,577</b>	579	–	–	<b>579</b>
Fair	154,085	–	–	<b>154,085</b>	862	–	–	<b>862</b>
Special attention	48,016	26,793	–	<b>74,809</b>	577	474	–	<b>1,051</b>
Expected loss	–	291	14,317	<b>14,608</b>	–	291	14,317	<b>14,608</b>
<b>Loans to customers at fair value through other comprehensive income</b>								
Good	33,423	–	–	<b>33,423</b>	19	–	–	<b>19</b>
Fair	7,006	–	–	<b>7,006</b>	79	–	–	<b>79</b>
	<b>861,615</b>	<b>27,084</b>	<b>14,317</b>	<b>903,016</b>	<b>3,823</b>	<b>765</b>	<b>14,317</b>	<b>18,905</b>

**Liquidity risk**

Liquidity risk is the risk of loss resulting from the Group's inability to meet its payment obligations in full when they fall due under normal and stress circumstances. Liquidity risk results from an improper balance between the Group's financial assets and financial liabilities by period and amount (including due to untimely discharge of its financial obligations by one or several counterparties of the Group) and/or an unforeseen need of immediate and simultaneous discharge of its financial obligations.

Liquidity management is an integral part of the general policy for the Group's assets and liabilities management (ALM) and operates within the established limits and restrictions related to the management of risks (liquidity, interest rate and currency risk) and the Group's balance sheet items, and in accordance with the documents of planning.

*(Thousands of euros)***23. Risk management (continued)****Liquidity risk (continued)**

Procedures for the Group's liquidity position management, ensuring the Group's ability to meet its obligations in full and on a timely basis and efficient resources management, are stipulated in the Regulations for IIB's Liquidity Position Management that enables the development of the liquidity position management function provided for by IIB's Assets and Liabilities Management Policy, as an integral part of the general function of the Group's management.

The Group manages its liquidity position in accordance with planning horizons (up to 12 months) and possible scenarios of movements in the liquidity position (stable, stressed).

The main instrument of liquidity position management under the stable scenario is a Plan of Cash Flows defining the cash flow by balance sheet product/instrument and taking into account the plan of future financial operations. The Group determines the balance sheet gaps, payment schedule and need for financing of future operations based on the Plan of Cash Flows.

The Group has implemented a liquidity buffer to manage the Group's liquidity under the stressed scenario. Application of the liquidity buffer enables the Group to promptly monitor the sustainability and stability of the Group's balance sheet structure in case of a liquidity shortage that is critical to the Group's solvency.

The liquidity buffer is formed primarily due to liquidity reserves, namely securities recognized in the Group's balance sheet and included in the Lombard lists of the European Central Bank and the Bank of Russia, and nostro accounts with banks and other financial institutions. The Group calculates its liquidity reserves as at the reporting date and for the next twelve monthly reporting dates (forecast). The liquidity buffer may be used to close the negative net position. As at 30 June 2020, the liquidity buffer amounts to EUR 340.9 million (31 December 2019: EUR 123.7 million).

Credit-related commitments of the Group are stated in accordance with contractual maturities in the table presented below. Where there is no contractual schedule of credit-related commitments, these obligations are included into the earliest date on which the client can demand their execution. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	<b>30 June 2020</b> <b>(unaudited)</b>	<b>31 December</b> <b>2019</b>
Less than 1 month	71,429	109,196
1 to 3 months	35,732	29,954
3 months to 1 year	21,344	43,032
1 to 5 years	28,408	—
<b>Credit-related commitments</b>	<b>156,913</b>	<b>182,182</b>

Credit-related commitment in the amount of EUR 28,408 thousand is included in the term of 1 to 5 years based on professional judgment and experience of relationship with the counterparty. However, in accordance with contractual terms this commitment can be requested upon request if other conditions for the disbursement are fulfilled by the counterparty.

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(Thousands of euros)

**23. Risk management (continued)****Liquidity risk (continued)**

The following table provides an analysis of financial assets and liabilities on the basis of the remaining period from the reporting date to the contractual maturity date. Quoted debt securities at fair value through other comprehensive income and equity instruments were included in the “Less than 1 month” category as they are highly liquid securities, shares and depositary receipts which the Group may sell in the short term on the arm-length basis. Securities at fair value through other comprehensive income pledged under repurchase agreements are presented on the basis of periods from the reporting date to the expiry date of the respective contractual obligations of the Group.

	30 June 2020 (unaudited)							31 December 2019						
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Past due	Total	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Past due	Total
<b>Financial assets</b>														
Cash and cash equivalents	170,330	–	–	–	–	–	170,330	48,040	7	–	–	–	–	48,047
Deposits with banks and other financial institutions	–	–	358	24,640	–	–	24,998	–	2,030	13,716	13,310	–	–	29,056
Derivative financial assets	235	–	7,266	12,759	–	–	20,260	–	729	1,283	1,999	–	–	4,011
Investments in the fund at fair value through profit or loss	1,255	–	–	–	–	–	1,255	1,119	–	–	–	–	–	1,119
Securities at fair value through other comprehensive income	229,530	21	51,659	6,729	–	–	287,939	216,231	–	–	–	–	–	216,231
Securities at amortized cost	–	86	4,835	29,418	62,899	–	97,238	18	193	358	19,416	72,610	–	92,595
Loans to banks	30,178	6,193	26,814	95,579	–	–	158,764	1,115	15,579	39,620	90,673	2,710	–	149,697
Loans to customers	11,434	4,701	82,210	381,280	300,360	12,579	792,564	10,380	19,176	41,956	365,590	297,410	–	734,512
Other financial assets	342	3	2,730	–	–	–	3,075	199	403	266	359	–	–	1,227
<b>Total financial assets</b>	<b>443,304</b>	<b>11,004</b>	<b>175,872</b>	<b>550,405</b>	<b>363,259</b>	<b>12,579</b>	<b>1,556,423</b>	<b>277,102</b>	<b>38,117</b>	<b>97,199</b>	<b>491,347</b>	<b>372,730</b>	<b>–</b>	<b>1,276,495</b>
<b>Financial liabilities</b>														
Due to banks and other financial institutions	(28,000)	(421)	(128,352)	(5,570)	–	–	(162,343)	(48,000)	–	–	(410)	–	–	(48,410)
Derivative financial liabilities	–	(2,329)	(11,159)	(19,747)	–	–	(33,235)	(907)	(10,163)	(7,561)	(12,225)	–	–	(30,856)
Current customer accounts	(11,144)	–	–	–	–	–	(11,144)	(11,148)	–	–	–	–	–	(11,148)
Long-term loans of banks	–	–	(571)	(53,989)	(26,641)	–	(81,201)	–	–	(6,548)	(31,500)	(18,687)	–	(56,735)
Debt securities issued	(653)	(123,427)	(147,017)	(641,443)	–	–	(912,540)	(865)	(148,732)	(196,641)	(447,299)	–	–	(793,537)
Other financial liabilities	(174)	(15)	(1,135)	(599)	(34)	–	(1,957)	(25)	(5)	(1,537)	(817)	(153)	–	(2,537)
<b>Total financial liabilities</b>	<b>(39,971)</b>	<b>(126,192)</b>	<b>(288,234)</b>	<b>(721,348)</b>	<b>(26,675)</b>	<b>–</b>	<b>(1,202,420)</b>	<b>(60,945)</b>	<b>(158,900)</b>	<b>(212,287)</b>	<b>(492,251)</b>	<b>(18,840)</b>	<b>–</b>	<b>(943,223)</b>
<b>Net position</b>	<b>403,333</b>	<b>(115,188)</b>	<b>(112,362)</b>	<b>(170,943)</b>	<b>336,584</b>	<b>12,579</b>	<b>354,003</b>	<b>216,157</b>	<b>(120,783)</b>	<b>(115,088)</b>	<b>(904)</b>	<b>353,890</b>	<b>–</b>	<b>333,272</b>
<b>Accumulated net position</b>	<b>403,333</b>	<b>288,145</b>	<b>175,783</b>	<b>4,840</b>	<b>341,424</b>	<b>354,003</b>		<b>216,157</b>	<b>95,374</b>	<b>(19,714)</b>	<b>(20,618)</b>	<b>333,272</b>	<b>333,272</b>	

*(Thousands of euros)***23. Risk management (continued)****Market risk**

Market risk is the risk that the Group may incur losses due to adverse fluctuations in the market rate of financial instruments, interest rates, foreign exchanges, and securities' prices. Market risk includes equity risk on securities, interest rate risk and currency risk.

The Group is exposed to market risk due to open positions in currency. Equity risk on securities arises from open positions in debt and equity instruments, which are exposed to general and specific market changes.

The Management Board of the Group performs overall management of market risk.

*Currency risk and price risk*

Currency risk is the risk of loss resulting from adverse changes in exchange rates with respect to the Group's open positions in foreign currencies. Price risk is the risk that the fair values of securities decrease as a result of changes in the levels of indices and the value of individual securities.

The Group applies a VaR methodology to assess currency and equity risks. VaR is a method used in measuring maximum risk of the Group, i.e. the level of losses on a certain position in relation to a financial instrument/currency/precious metal or a portfolio, which shall not be exceeded at a given confidence level and over a specified time horizon.

The Group uses an assumption that the accuracy of assessment of maximum value at risk (confidence level) is 99%, and the time horizon is 10 days. The assessment of value at risk in relation to the currency position of the Group is carried out in major currencies and financial instruments of the Group attributable to a securities portfolio.

In estimating value at risk, the Group uses a parameter method, which allows assessing the volatility of yield on the basis of the most current market data.

The choice of a respective approach to value at risk estimation is made on the basis of data on statistical analysis of changes in fair values of financial instruments and exchange rates.

The selection period used by the Group for modeling purposes depends on types of instruments: 250 days for currency and securities. In order to monitor the accuracy of assessment of the above-mentioned risks, the Group carries out regular testing (back-testing) based on historical data, which allows evaluating the compliance of the risk assessment model with the actual market situation.

As at 30 June 2020 and 31 December 2019, final data on the value at risk (VaR) assessment in relation to currency and price risks assumed by the Group are represented as follows:

	<i><b>30 June 2020</b></i> <i><b>(unaudited)</b></i>	<i><b>31 December</b></i> <i><b>2019</b></i>
Fixed income securities price risk	2,918	1,091
Currency risk	163	93

Despite the fact that measurement of value at risk is a standard industry method for risk assessment, this method has a number of limitations:

- ▶ Analysis based on the value at risk assessment is correct in case current market conditions remain unchanged.
- ▶ Assessment of value at risk is sensitive to market liquidity in relation to a particular financial instrument, and the lack of liquidity may lead to biased volatility data.
- ▶ If a confidence level of 99% is used, losses exceeding the confidence range are not taken into account.
- ▶ The 10-day time horizon implies the entire Group's position over this period could have been closed or hedged. The results of the value at risk assessment may be incorrect in case of market liquidity deterioration.

Fluctuations that may occur in the course of the day are not taken into account at calculating value at risk on the basis of the results of a business day.

(Thousands of euros)

**23. Risk management (continued)****Market risk (continued)**

The Group has assets and liabilities denominated in several foreign currencies. The financial position and the cash flows are exposed to the effects of fluctuations in foreign currency exchange rates. Non-monetary financial instruments and financial instruments denominated in functional currency are not exposed to currency risk. The Group's exposure to currency risk as at 30 June 2020 and 31 December 2019 is presented below:

	<i>30 June 2020 (unaudited)</i>						
	<i>EUR</i>	<i>USD</i>	<i>RUB</i>	<i>HUF</i>	<i>RON</i>	<i>Other currencies</i>	<i>Total</i>
<b>Non-derivative financial assets</b>							
Cash and cash equivalents	163,485	2,969	1,784	297	1,593	202	<b>170,330</b>
Deposits with banks and other financial institutions	24,998	–	–	–	–	–	<b>24,998</b>
Investments in the fund at fair value through profit or loss	1,255	–	–	–	–	–	<b>1,255</b>
Securities at fair value through other comprehensive income	159,120	115,816	13,003	–	–	–	<b>287,939</b>
Securities at amortized cost	70,432	26,806	–	–	–	–	<b>97,238</b>
Long-term loans to banks	101,062	57,702	–	–	–	–	<b>158,764</b>
Loans to customers	524,013	127,854	89,078	–	51,619	–	<b>792,564</b>
Other financial assets	781	–	2,115	179	–	–	<b>3,075</b>
<b>Total non-derivative financial assets</b>	<b>1,045,146</b>	<b>331,147</b>	<b>105,980</b>	<b>476</b>	<b>53,212</b>	<b>202</b>	<b>1,536,163</b>
<b>Non-derivative financial liabilities</b>							
Due to banks and other financial institutions	(161,922)	–	–	(421)	–	–	<b>(162,343)</b>
Current customer accounts	(11,113)	(31)	–	–	–	–	<b>(11,144)</b>
Long-term loans of banks	(36,997)	(44,204)	–	–	–	–	<b>(81,201)</b>
Debt securities issued	(141,377)	–	(307,044)	(132,705)	(252,407)	(79,007)	<b>(912,540)</b>
Other financial liabilities	(1,294)	(143)	(345)	(69)	(51)	(55)	<b>(1,957)</b>
<b>Total non-derivative financial liabilities</b>	<b>(352,703)</b>	<b>(44,378)</b>	<b>(307,389)</b>	<b>(133,195)</b>	<b>(252,458)</b>	<b>(79,062)</b>	<b>(1,169,185)</b>
<b>Net balance sheet position (excluding derivative financial instruments)</b>	<b>692,443</b>	<b>286,769</b>	<b>(201,409)</b>	<b>(132,719)</b>	<b>(199,246)</b>	<b>(78,860)</b>	<b>366,978</b>
<b>Derivative financial instruments</b>							
Claims	339,836	–	275,642	132,068	230,235	78,793	<b>1,056,574</b>
Liabilities	(731,843)	(245,163)	(68,460)	–	(24,083)	–	<b>(1,069,549)</b>
<b>Net balance sheet position, including derivative financial instruments</b>	<b>300,436</b>	<b>41,606</b>	<b>5,773</b>	<b>(651)</b>	<b>6,906</b>	<b>(67)</b>	<b>354,003</b>

(Thousands of euros)

**23. Risk management (continued)****Market risk (continued)**

	<i>31 December 2019</i>						
	<i>EUR</i>	<i>USD</i>	<i>RUB</i>	<i>HUF</i>	<i>RON</i>	<i>Other currencies</i>	<i>Total</i>
<b>Non-derivative financial assets</b>							
Cash and cash equivalents	38,077	6,015	1,621	1,624	548	162	<b>48,047</b>
Deposits with banks and other financial institutions	29,056	–	–	–	–	–	<b>29,056</b>
Investments in the fund at fair value through profit or loss	1,119	–	–	–	–	–	<b>1,119</b>
Securities at fair value through other comprehensive income	87,076	114,407	14,748	–	–	–	<b>216,231</b>
Securities at amortized cost	65,637	26,958	–	–	–	–	<b>92,595</b>
Long-term loans to banks	105,122	44,575	–	–	–	–	<b>149,697</b>
Loans to customers	458,745	129,442	103,161	–	43,164	–	<b>734,512</b>
Other financial assets	537	342	105	243	–	–	<b>1,227</b>
<b>Total non-derivative financial assets</b>	<b>785,369</b>	<b>321,739</b>	<b>119,635</b>	<b>1,867</b>	<b>43,712</b>	<b>162</b>	<b>1,272,484</b>
<b>Non-derivative financial liabilities</b>							
Due to banks and other financial institutions	(48,410)	–	–	–	–	–	<b>(48,410)</b>
Current customer accounts	(11,117)	(31)	–	–	–	–	<b>(11,148)</b>
Long-term loans of banks	(23,042)	(33,693)	–	–	–	–	<b>(56,735)</b>
Debt securities issued	(140,169)	–	(220,138)	(143,094)	(230,688)	(59,448)	<b>(793,537)</b>
Other financial liabilities	(1,117)	(583)	(629)	(105)	(52)	(51)	<b>(2,537)</b>
<b>Total non-derivative financial liabilities</b>	<b>(223,855)</b>	<b>(34,307)</b>	<b>(220,767)</b>	<b>(143,199)</b>	<b>(230,740)</b>	<b>(59,499)</b>	<b>(912,367)</b>
<b>Net balance sheet position (excluding derivative financial instruments)</b>	<b>561,514</b>	<b>287,432</b>	<b>(101,132)</b>	<b>(141,332)</b>	<b>(187,028)</b>	<b>(59,337)</b>	<b>360,117</b>
<b>Derivative financial instruments</b>							
Claims	248,875	–	176,653	155,690	201,486	60,198	<b>842,902</b>
Liabilities	(521,926)	(241,923)	(76,766)	(14,479)	(14,653)	–	<b>(869,747)</b>
<b>Net balance sheet position, including derivative financial instruments</b>	<b>288,463</b>	<b>45,509</b>	<b>(1,245)</b>	<b>(121)</b>	<b>(195)</b>	<b>861</b>	<b>333,272</b>

(Thousands of euros)

**24. Fair value measurements**

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, professional judgment is necessarily required to interpret market data to determine the fair value. While management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

**Fair value hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- ▶ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- ▶ Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- ▶ Level 3: techniques that use inputs which have a significant effect on the recognized fair value that are not based on observable market data.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of their nature, characteristics and risks of the asset or liability, and the level of the fair value hierarchy. The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 30 June 2020 and 31 December 2019:

	<i>Level 1</i> <i>30 June 2020</i> <i>(unaudited)</i>	<i>Level 2</i> <i>30 June 2020</i> <i>(unaudited)</i>	<i>Level 3</i> <i>30 June 2020</i> <i>(unaudited)</i>	<i>Total</i> <i>30 June 2020</i> <i>(unaudited)</i>
<b>Assets measured at fair value</b>				
Derivative financial assets	—	20,260	—	<b>20,260</b>
Investments in the fund at fair value through profit or loss	—	1,255	—	<b>1,255</b>
Government bonds	108,625	—	—	<b>108,625</b>
Corporate bonds	128,036	51,278	—	<b>179,314</b>
Loans to customers at fair value through other comprehensive income	87,225	—	—	<b>87,225</b>
Investment property	—	—	34,413	<b>34,413</b>
Property and equipment – buildings	—	—	36,087	<b>36,087</b>
<b>Liabilities measured at fair value</b>				
Derivative financial liabilities	—	33,235	—	<b>33,235</b>
<b>Assets for which fair values are disclosed</b>				
Cash and cash equivalents	286	170,044	—	<b>170,330</b>
Deposits with banks and other financial institutions	—	—	24,998	<b>24,998</b>
Securities at amortized cost	99,864	—	—	<b>99,864</b>
Loans to banks at amortized cost	—	—	159,234	<b>159,234</b>
Loans to customers at amortized cost	9,167	—	695,275	<b>704,442</b>
<b>Liabilities for which fair values are disclosed</b>				
Due to banks and other financial institutions	—	—	162,343	<b>162,343</b>
Current customer accounts	—	—	11,144	<b>11,144</b>
Long-term loans of banks	—	—	81,201	<b>81,201</b>
Debt securities issued	—	921,157	—	<b>921,157</b>



(Thousands of euros)

**24. Fair value measurements (continued)****Fair value hierarchy (continued)**

	<i>Level 1</i> <i>31 December</i> <i>2019</i>	<i>Level 2</i> <i>31 December</i> <i>2019</i>	<i>Level 3</i> <i>31 December</i> <i>2019</i>	<i>Total</i> <i>31 December</i> <i>2019</i>
<b>Assets measured at fair value</b>				
Derivative financial assets	–	4,011	–	<b>4,011</b>
Investments in the fund at fair value through profit or loss	–	1,119	–	<b>1,119</b>
Government bonds	45,817	–	–	<b>45,817</b>
Corporate bonds	120,040	50,369	–	<b>170,409</b>
Quoted equity instruments	–	5	–	<b>5</b>
Loans to customers at fair value through other comprehensive income	40,429	–	–	<b>40,429</b>
Investment property	–	–	40,218	<b>40,218</b>
Property and equipment – buildings	–	–	35,136	<b>35,136</b>
<b>Liabilities measured at fair value</b>				
Derivative financial liabilities	–	30,856	–	<b>30,856</b>
<b>Assets for which fair values are disclosed</b>				
Cash and cash equivalents	530	47,517	–	<b>48,047</b>
Deposits with banks and other financial institutions	–	–	29,056	<b>29,056</b>
Securities at amortized cost	88,685	6,034	–	<b>94,719</b>
Loans to banks at amortized cost	–	–	148,203	<b>148,203</b>
Loans to customers at amortized cost	31,721	–	681,103	<b>712,824</b>
<b>Liabilities for which fair values are disclosed</b>				
Due to banks and other financial institutions	–	–	48,410	<b>48,410</b>
Current customer accounts	–	–	11,148	<b>11,148</b>
Long-term loans of banks	–	–	56,735	<b>56,735</b>
Debt securities issued	–	805,554	–	<b>805,554</b>

**Fair value of financial assets and liabilities not recorded at fair value**

Set out below is a comparison of the carrying amounts and fair values of the Group's financial instruments that are recorded in the interim condensed consolidated financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	<i>Carrying amount</i> <i>30 June 2020</i> <i>(unaudited)</i>	<i>Fair value</i> <i>30 June 2020</i> <i>(unaudited)</i>	<i>Unrecognized gain/(loss)</i> <i>30 June 2020</i> <i>(unaudited)</i>	<i>Carrying amount</i> <i>31 December</i> <i>2019</i>	<i>Fair value</i> <i>31 December</i> <i>2019</i>	<i>Unrecognized gain/(loss)</i> <i>31 December</i> <i>2019</i>
<b>Financial assets</b>						
Cash and cash equivalents	170,330	170,330	–	48,047	48,047	–
Deposits with banks and other financial institutions	24,998	24,998	–	29,056	29,056	–
Securities at amortized cost	97,238	99,864	2,626	92,595	94,719	2,124
Loans to banks at amortized cost	158,764	159,234	470	149,697	148,203	(1,494)
Loans to customers at amortized cost	705,339	704,442	(897)	694,083	712,824	18,741
<b>Financial liabilities</b>						
Due to banks and other financial institutions	162,343	162,343	–	48,410	48,410	–
Current customer accounts	11,144	11,144	–	11,148	11,148	–
Long-term loans of banks	81,201	81,201	–	56,735	56,735	–
Debt securities issued	912,540	921,157	(8,617)	793,537	805,554	(12,017)
<b>Total unrecognized change in unrealized fair value</b>			<b>(6,418)</b>			<b>7,354</b>

(Thousands of euros)

**24. Fair value measurements (continued)****Fair value of financial assets and liabilities not recorded at fair value (continued)**

Transfers between the levels of the fair value hierarchy are deemed to have made as at the end of the reporting period. There were no transfers of financial instruments between Level 1 and Level 2 in the six months ended 30 June 2020 and year ended 31 December 2019.

**25. Segment information**

For management purposes, the Group identifies the following three operating segments based on its lines of services:

Credit investment activity	Investment banking services, including long-term corporate and interbank financing.
Treasury	Operations in financial markets, transactions with securities, derivative financial instruments and foreign currency, and liquidity management.
Other operations	Operational leasing services, other operations.

Management monitors the operating results of its business separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured differently from profit or loss in the interim condensed consolidated financial statements. The following table presents income, profit, assets and liabilities of the Group's operating segments:

<i>30 June 2020 (unaudited)</i>	<i>Credit investment activity</i>	<i>Treasury</i>	<i>Other operations</i>	<i>Total</i>
<b>Income</b>				
<b>External customers</b>				
Interest income calculated using the EIR method	18,145	3,412	8	<b>21,565</b>
Other interest income	–	9,214	–	<b>9,214</b>
Fee and commission income	1,195	–	–	<b>1,195</b>
Net gains from operations with securities at fair value through other comprehensive income	–	5,462	–	<b>5,462</b>
Gains from sale of investment property	–	–	647	<b>647</b>
Income from lease of investment property	–	–	1,181	<b>1,181</b>
Other segment expense	(309)	–	44	<b>(265)</b>
<b>Total income</b>	<b>19,031</b>	<b>18,088</b>	<b>1,880</b>	<b>38,999</b>
Interest expenses calculated using the EIR method	(10,132)	(6,328)	–	<b>(16,460)</b>
Other interest expenses	–	(5,409)	–	<b>(5,409)</b>
Net allowance for credit losses on financial instruments	(1,840)	(199)	24	<b>(2,015)</b>
Fee and commission expense	(27)	(126)	(1)	<b>(154)</b>
Net (losses)/profit from operations with foreign currencies and derivatives	–	(1,188)	(21)	<b>(1,209)</b>
Other segment expenses	(9)	–	(223)	<b>(232)</b>
<b>Segment results</b>	<b>7,023</b>	<b>4,838</b>	<b>1,659</b>	<b>13,520</b>
Other unallocated expenses				<b>(8,551)</b>
<b>Profit for the year</b>				<b>4,969</b>
Development portfolio	951,429	162,886	–	<b>1,114,315</b>
Other segment assets	–	439,234	107,382	<b>546,616</b>
<b>Total segment assets</b>	<b>951,429</b>	<b>602,120</b>	<b>107,382</b>	<b>1,660,931</b>
<b>Total segment liabilities</b>	<b>638,010</b>	<b>563,723</b>	<b>9,103</b>	<b>1,210,836</b>
<b>Other segment information</b>				
Capital expenditures	–	–	26,923	<b>26,923</b>

(Thousands of euros)

**25. Segment information (continued)**

The Group's management separates the "Development portfolio" assets allocated within operating segments. The criterion for the separation is whether the investment corresponds the Bank's mission. The "Development portfolio" includes loans to banks and loans to customers excluding impaired loan projects and investments in debt securities purchased upon the initial placement by the issuer.

<b>30 June 2019 (unaudited)</b>	<b>Credit investment activity</b>	<b>Treasury</b>	<b>Other operations</b>	<b>Total</b>
<b>Income</b>				
<b>External customers</b>				
Interest income calculated using the EIR method	19,722	3,985	14	<b>23,721</b>
Other interest income	–	9,267	–	<b>9,267</b>
Fee and commission income	673	–	–	<b>673</b>
Net allowance for credit losses on financial instruments	214	60	2	<b>276</b>
Net gains from operations with securities at fair value through other comprehensive income	–	1,715	–	<b>1,715</b>
Income from lease of investment property	–	–	1,582	<b>1,582</b>
Other segment income/(expenses)	(656)	62	146	<b>(448)</b>
<b>Total income</b>	<b>19,953</b>	<b>15,089</b>	<b>1,744</b>	<b>36,786</b>
Interest expenses calculated using the EIR method	(11,836)	(5,809)	–	<b>(17,645)</b>
Other interest expenses	–	(4,169)	–	<b>(4,169)</b>
Fee and commission expense	(25)	(117)	(2)	<b>(144)</b>
Net losses from operations with foreign currencies and derivatives	–	(2,199)	(9)	<b>(2,208)</b>
Allowance for credit losses from impairment of financial instruments	–	–	(891)	<b>(891)</b>
Other segment expenses	–	–	(310)	<b>(310)</b>
<b>Segment results</b>	<b>8,092</b>	<b>2,795</b>	<b>532</b>	<b>11,419</b>
Other unallocated expenses				<b>(8,545)</b>
<b>Profit for the period</b>				<b>2,874</b>
Development portfolio	777,119	147,496	–	<b>924,615</b>
Other segment assets	–	252,580	98,884	<b>351,464</b>
<b>Total segment assets</b>	<b>777,119</b>	<b>400,076</b>	<b>98,884</b>	<b>1,276,079</b>
<b>Total segment liabilities</b>	<b>517,224</b>	<b>359,499</b>	<b>6,743</b>	<b>883,466</b>
<b>Other segment information</b>				
Capital expenditures	–	–	65	<b>65</b>

During the six months of 2020, the Group's revenue from lease operations with two external counterparties (30 June 2019: one external counterparty) exceeded 20% of the Group's total revenue (six months ended 30 June 2020: EUR 590 thousand; six months ended 30 June 2019: EUR 891 thousand).

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(Thousands of euros)

**25. Segment information (continued)****Geographical information**

Allocation of the Group's revenue from transactions with external customers and non-current assets based on the location of these customers and assets for the six months ended 30 June 2020 and 30 June 2019 is presented in the table below:

	<i>30 June 2020 (unaudited)</i>				<i>30 June 2019 (unaudited)</i>			
	<i>Russia</i>	<i>Other member countries</i>	<i>Other countries</i>	<i>Total</i>	<i>Russia</i>	<i>Other member countries</i>	<i>Other countries</i>	<i>Total</i>
Interest income calculated using the EIR method	3,712	11,793	6,060	<b>21,565</b>	5,204	12,512	6,005	<b>23,721</b>
Other interest income	1,418	1,247	6,549	<b>9,214</b>	2,065	–	7,202	<b>9,267</b>
Income from lease of investment property	1,143	38	–	<b>1,181</b>	1,514	68	–	<b>1,582</b>

Information on risk concentration by geographical region is based on the geographical location of the Group's counterparties. The geographical concentration of the Group's financial assets and liabilities as at 30 June 2020 and 31 December 2019 is presented below:

	30 June 2020 (unaudited)										
	Russian Federation	Republic of Bulgaria	Romania	Slovak Republic	Hungary	Mongolia	Socialist Republic of Vietnam	Czech Republic	Republic of Cuba	Other countries	Total
<b>Financial assets</b>											
Cash and cash equivalents	21,884	127	1,593	–	751	–	–	45	–	145,930	<b>170,330</b>
Deposits with banks and other financial institutions	–	–	–	–	–	–	–	–	–	24,998	<b>24,998</b>
Derivative financial assets	2,282	–	978	–	126	–	–	–	–	16,874	<b>20,260</b>
Investments in the fund at fair value through profit or loss	–	–	–	–	–	–	–	–	–	1,255	<b>1,255</b>
Securities at fair value through other comprehensive income	–	13,173	41,478	33,177	26,391	–	–	979	–	172,741	<b>287,939</b>
Securities at amortized cost	20,492	–	–	–	–	–	–	10,028	–	66,718	<b>97,238</b>
Long-term loans to banks	–	–	–	–	–	18,636	39,066	–	38,394	62,668	<b>158,764</b>
Loans to customers	131,888	114,689	132,366	99,857	60,214	59,019	35,338	–	–	159,193	<b>792,564</b>
Other financial assets	43	–	195	24	2,766	42	–	–	–	5	<b>3,075</b>
<b>Financial assets</b>	<b>176,589</b>	<b>127,989</b>	<b>176,610</b>	<b>133,058</b>	<b>90,248</b>	<b>77,697</b>	<b>74,404</b>	<b>11,052</b>	<b>38,394</b>	<b>650,382</b>	<b>1,556,423</b>
<b>Financial liabilities</b>											
Due to banks and other financial institutions	1,814	28,000	20,067	–	421	–	–	–	–	112,041	<b>162,343</b>
Derivative financial liabilities	–	–	–	–	–	–	–	–	–	33,235	<b>33,235</b>
Long-term loans of banks	19,980	–	–	–	–	–	–	–	–	61,221	<b>81,201</b>
Long-term securities issued	307,044	–	416,949	–	132,705	–	–	55,842	–	–	<b>912,540</b>
Other financial liabilities	227	–	–	–	987	405	–	–	–	338	<b>1,957</b>
<b>Financial liabilities</b>	<b>329,065</b>	<b>28,000</b>	<b>437,016</b>	<b>–</b>	<b>134,113</b>	<b>405</b>	<b>–</b>	<b>55,842</b>	<b>–</b>	<b>206,835</b>	<b>1,191,276</b>

(Thousands of euros)

**25. Segment information (continued)****Geographical information (continued)**

	31 December 2019										
	Russian Federation	Republic of Bulgaria	Romania	Slovak Republic	Hungary	Mongolia	Socialist Republic of Vietnam	Czech Republic	Republic of Cuba	Other countries	Total
<b>Financial assets</b>											
Cash and cash equivalents	1,797	697	548	—	3,300	—	—	8	—	41,697	<b>48,047</b>
Deposits with banks and other financial institutions	7,306	—	—	—	—	—	—	—	—	21,750	<b>29,056</b>
Derivative financial assets	36	—	—	—	—	—	—	—	—	3,975	<b>4,011</b>
Investments in the fund at fair value through profit or loss	—	—	—	—	—	—	—	—	—	1,119	<b>1,119</b>
Securities at fair value through other comprehensive income	—	14,483	22,880	—	—	—	—	10,247	—	168,621	<b>216,231</b>
Securities at amortized cost	20,834	—	—	—	—	—	—	4,957	—	66,804	<b>92,595</b>
Long-term loans to banks	—	—	—	—	—	52,068	22,786	—	42,774	32,069	<b>149,697</b>
Loans to customers	148,171	120,160	111,888	91,669	39,594	26,291	32,085	—	—	164,654	<b>734,512</b>
Other financial assets	822	—	15	35	—	342	—	—	—	13	<b>1,227</b>
<b>Financial assets</b>	<b>178,966</b>	<b>135,340</b>	<b>135,331</b>	<b>91,704</b>	<b>42,894</b>	<b>78,701</b>	<b>54,871</b>	<b>15,212</b>	<b>42,774</b>	<b>500,702</b>	<b>1,276,495</b>
<b>Financial liabilities</b>											
Due to banks and other financial institutions	—	(23,000)	—	—	—	—	—	(25,000)	—	(410)	<b>(48,410)</b>
Derivative financial liabilities	(7,551)	—	(608)	—	—	—	—	—	—	(22,697)	<b>(30,856)</b>
Long-term loans of banks	—	—	—	—	—	—	—	—	—	(56,735)	<b>(56,735)</b>
Long-term securities issued	(220,138)	—	(370,857)	—	(143,094)	—	—	(59,448)	—	—	<b>(793,537)</b>
Other financial liabilities	(1,433)	—	—	—	(4)	(380)	—	(7)	—	(713)	<b>(2,537)</b>
<b>Financial liabilities</b>	<b>(229,122)</b>	<b>(23,000)</b>	<b>(371,465)</b>	<b>—</b>	<b>(143,098)</b>	<b>(380)</b>	<b>—</b>	<b>(84,455)</b>	<b>—</b>	<b>(80,555)</b>	<b>(932,075)</b>

Other countries include non-member countries.

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(Thousands of euros)

**26. Related party disclosures**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Transactions and settlements with related parties were carried out on conditions similar to those which prevail in transactions between independent parties.

Volumes of related party transactions, outstanding balances at 30 June 2020 and 31 December 2019, and related expenses and income for the six months ended 30 June 2020 and six months ended 30 June 2019 are as follows:

		30 June 2020 (unaudited)	31 December 2019
	Related party	Carrying amount	Carrying amount
Consolidated statement of financial position			
Current customer accounts	Key management personnel	1,736	1,691
Other assets	Key management personnel	110	—
Other liabilities	Key management personnel	1,211	1,032
		30 June 2020 (unaudited)	30 June 2019 (unaudited)
	Related party	Expense	Expense
Consolidated income statement			
Interest expenses on current customer accounts	Key management personnel	(20)	(17)
Net interest expense after allowance for loan impairment		(20)	(17)
Expenses from operating activities		(20)	(17)
Employee benefits	Key management personnel	(705)	(645)
Compensation for travel expenses and medical insurance	Key management personnel	(57)	(67)
Operating expenses		(762)	(712)
Net loss for the period		(782)	(729)

In the ordinary course of business, the Group mainly carries out transactions with entities from the Bank member countries, the Group also engages into contractual relationships with government-related organizations. Balances and income from operations with government and government-related organizations are as follows:

	<i>30 June 2020 (unaudited)</i>	<i>31 December 2019</i>
<b>Consolidated of financial position</b>		
Securities at fair value through other comprehensive income	103,332	27,360
Securities at amortized cost	30,520	25,790
Loans to banks	38,394	73,053
Loans to customers	257,624	226,295
Other assets	41	–
<b>Commitment and contingencies</b>		
Undrawn loan facilities	49,814	44,475
	<i>30 June 2020 (unaudited)</i>	<i>30 June 2019 (unaudited)</i>
<b>Consolidated income statement</b>		
Interest income calculated using the EIR method	5,934	8,626
Fee and commission income	584	77
Net gains from operations with securities at fair value through other comprehensive income	3,331	647
Other expenses	(3)	(470)

*(Thousands of euros)***27. Capital adequacy**

The capital adequacy ratio is the most important financial indicator characterizing credibility of credit institutions and is estimated as the ratio of the capital base to risk-weighted assets expressed as a percentage. Approval of the capital adequacy ratio is the exclusive competency of the IIB's Board of Governors.

The Basel Committee on Banking Supervision recommends maintaining the ratio of capital to risk-weighted assets ("capital adequacy ratio") above the prescribed minimum level. As at 30 June 2020, this minimum level was 8% (31 December 2019: 8%).

Besides, taking into account the Bank's status as a multilateral development institution and the structure of the Bank's member countries, the IIB's Board of Governors set the capital adequacy ratio at the level of not less than 25% as at 30 June 2020 (31 December 2019: 25%).

The following table shows the composition of the Bank's capital position calculated in accordance with the Basel Accord (Basel II) as at 30 June 2020 and 31 December 2019.

	<b>30 June 2020</b> <b>(unaudited)</b>	<b>31 December</b> <b>2019</b>
<b>Capital</b>		
Tier 1 capital	426,520	390,513
Tier 2 capital	17,144	16,209
<b>Total regulatory capital</b>	<b>443,664</b>	<b>406,722</b>
<b>Risk-weighted assets</b>		
Credit risk	1,028,596	983,554
Market risk	198,047	150,382
Operational risk	47,112	41,838
<b>Total risk-weighted assets</b>	<b>1,273,755</b>	<b>1,175,774</b>
Total capital expressed as a percentage of risk-weighted assets, % ("capital adequacy ratio")	34.83%	34.59%
Total tier 1 capital expressed as a percentage of risk-weighted assets, % ("tier 1 capital adequacy ratio")	33.49%	33.21%