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Confirmation of Your Representation: This electronic transmission and the attached document is delivered to you on the basis that you are deemed to have represented to the Issuer and BT Capital Partners S.A., BRD - Groupe Société Générale S.A. and ING Bank N.V. Amsterdam Sucursala Bucuresti (the "**Managers**") that (i) you are acquiring such securities in "offshore transactions", as defined in, and in reliance on, Regulation S under the Securities Act ("**Regulation S**"); (ii) if you are in the UK, you are a Relevant Person, and/or a Relevant Person who is acting on behalf of, Relevant

Persons in the United Kingdom and/or Qualified Investors to the extent you are acting on behalf of persons or entities in the UK or the EEA; (iii) if you are in any member state of the EEA other than the UK, you are a Qualified Investor and/or a Qualified Investor acting on behalf of, Qualified Investors or Relevant Persons, to the extent you are acting on behalf of persons or entities in the EEA or the UK; or (iv) you are an institutional investor or an investor that is otherwise eligible to receive this document and you consent to delivery by electronic transmission.

You are reminded that you have received this electronic transmission and the attached document on the basis that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorized to deliver this document, electronically or otherwise, to any other person. If you receive this electronic transmission and the attached document by e-mail, you should not reply by e-mail. Any reply to e-mail communications, including those you generate by using the "reply" function on your e-mail software, will be ignored or rejected. If you receive the attached document in electronic format by e-mail, your use of such document in electronic format and such e-mail is at your own risk and it is your responsibility to take precautions to ensure that each is free from viruses and other items of a destructive nature. The materials relating to the Offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where such offers or solicitations are not permitted by law. If a jurisdiction requires that the Offering be made by an authorized broker or dealer and the underwriters or any affiliate of the underwriters is an authorized broker or dealer in that jurisdiction, the Offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction.

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The Managers are acting exclusively for the Issuer and no one else in connection with the Offering. They will not regard any other person (whether or not a recipient of this document) as their client in relation to the Offering and will not be responsible to anyone other than the Issuer for providing the protections afforded to its clients nor for giving advice in relation to the Offering or any transaction or arrangement referred to herein.

IMPORTANT NOTICE

THIS OFFERING OF THE BONDS DESCRIBED HEREIN IS AVAILABLE ONLY TO (I) INVESTORS IN ROMANIA WHO ARE "QUALIFIED INVESTORS" WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE DIRECTIVE 2003/71/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 4 NOVEMBER 2003 ON THE PROSPECTUS TO BE PUBLISHED WHEN SECURITIES ARE OFFERED TO THE PUBLIC OR ADMITTED TO TRADING AND AMENDING, AS AMENDED (THE "**PROSPECTUS DIRECTIVE**") AND/OR (II) LESS THAN 150 NATURAL OR LEGAL PERSONS, OTHER THAN QUALIFIED INVESTORS PER MEMBER STATE, AND TO SUCH OTHER INVESTORS IN ROMANIA OR SUCH OTHER MEMBER STATES OF THE EUROPEAN ECONOMIC AREA WHERE IT IS POSSIBLE TO DO SO, IN RELIANCE OF REGULATION S (**"REGULATION S"**) UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**U.S. SECURITIES ACT**") AND WITHOUT THE NEED TO PUBLISH A PROSPECTUS OR UNDERTAKE ANY OTHER FORMALITIES WHATSOEVER UNDER ANY APPLICABLE LAW, IN RELIANCE ON ARTICLE 3(2) OF THE PROSPECTUS DIRECTIVE, TO THE EXTENT, AND ONLY PROVIDED THAT, AN INVESTMENT IN THE BONDS DOES NOT CONSTITUTE A VIOLATION OF ANY APPLICABLE LAW BY SUCH INVESTORS. IN ADDITION, IN THE UNITED KINGDOM, THE OFFERING OF THE BONDS DESCRIBED HEREIN IS DIRECTED ONLY AT QUALIFIED INVESTORS WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE ("**QUALIFIED INVESTORS**") (X) WHO HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE "**FINANCIAL PROMOTION ORDER**") AND QUALIFIED INVESTORS FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE FINANCIAL PROMOTION ORDER AND (Y) TO WHOM IT MAY OTHERWISE LAWFULLY BE DIRECTED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS "**RELEVANT PERSONS**"). INVESTOR TO WHOM THE OFFERING OF THE BONDS DESCRIBED HEREIN IS AVAILABLE IN ACCORDANCE WITH THE FOREGOING ARE HEREIN REFERRED TO AS "**ELIGIBLE INVESTORS**".

IMPORTANT: You must read the following before continuing. The following applies to the Offering Circular (the "**Offering Circular**") following this notice, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

The Offering Circular has been prepared in connection with the proposed offer and sale of the Bonds described therein. The Offering Circular and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person.

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NONE OF THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION OR ANY OTHER U.S. REGULATORY AUTHORITY, HAS APPROVED OR DISAPPROVED THE BONDS NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ACCURACY OR ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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Confirmation of your representation: In order to be eligible to view the Offering Circular or make an investment decision with respect to the Bonds, you must be an Eligible Investor. The Offering Circular is being sent at your request. By accepting the e-mail or otherwise accessing the Offering Circular, you shall be deemed to have represented to us that:

(1) you consent to delivery of such Offering Circular by electronic transmission, and

(2) you and any customers you represent are Eligible Investors or, if you are in the United Kingdom, you are a relevant person and/or a relevant person who is acting on behalf of, relevant persons in the United Kingdom and/or Qualified Investors to the extent you are acting on behalf of persons or entities in the United Kingdom or the European Economic Area, and

(3) the e-mail address that you gave us and to which the e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any State of the United States or the District of Columbia, or any other territory which is not in the European Economic Area.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located, and you may not, nor are you authorized to, deliver the Offering Circular to any other person.

Under no circumstances shall the Offering Circular constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

In addition, in the United Kingdom, this electronic transmission and the attached document is being distributed only to, and is directed only at, Qualified Investors (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Promotion Order and Qualified Investors falling within Article 49(2)(a) to (d) of the Financial Promotion Order, and (ii) to whom it may otherwise lawfully be communicated. The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission, and consequently none of the Issuer or the Managers, nor any of their affiliates, nor any of their or its directors, officers, employees, advisers or agents accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version made available to you on request from any of the Managers.

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MIFID II product governance / Retail investors, professional investors and ECPs – Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is eligible counterparties, professional clients and retail clients, each as defined in MiFID II; (ii) retail clients are only considered target market if they have a) the ability to understand relevant financial products and transactions and their risks ; (b) knowledge regarding investments, (c) knowledge regarding trading procedures (d) financial industry experience, interest, and knowledge; (e) understands that he/she can incur capital losses (iii) all channels for distribution to eligible counterparties and professional clients are appropriate; and (iv) the following channels for distribution of the Bonds to retail clients are appropriate - investment advice, portfolio management, non-advised sales and pure execution services, subject to the distributor's suitability and appropriateness obligations under MiFID II, as applicable. The product is incompatible for any client outside the positive target market identified above. Any person subsequently offering, selling or recommending the Bonds (a distributor) should take into consideration the manufacturer's target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels, subject to the distributor's suitability and appropriateness obligations under MiFID II, as applicable.

INTERNATIONAL INVESTMENT BANK

OFFERING OF EUR, RON OR A COMBINATION OF EUR AND RON BONDS

International Investment Bank (the "**Issuer**"), an international organisation operating on the basis of the intergovernmental Agreement on the Establishment of the International Investment Bank of 10 July 1970 and the Charter of the International Investment Bank attached to the Establishment Agreement, initially registered with the Secretariat of the United Nations on 1 December 1971 under number 11417, is offering EUR or RON or a combination of EUR and RON Bonds, floating interest rate RON-denominated bonds and/or fixed interest rate EUR-denominated bonds, and having a maturity of three (3) years (the "**Bonds**"), in a public offering (the "**Offering**") to investors in Romania who are "qualified investors" within the meaning of article 2(1)(e) of the Prospectus Directive and/or to less than 150 natural or legal persons, other than qualified investors per member state, and to such other investors in Romania or such other members states of the European Economic Area where it is possible to do so, in reliance of Regulation S ("**Regulation S**") under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**") and without the need to publish a prospectus or undertake any other formalities whatsoever under applicable law in reliance on article 3(2) of the Prospectus Directive, to the extent, and only provided that an investment in the Bonds does not constitute a violation of any applicable law by such investors. Each RON-denominated Bond (each, a "**RON Bond**" and, collectively, the "**RON Bonds**") has a nominal value of RON 10,000, while each EUR-denominated Bond (each, a "**EUR Bond**" and, collectively, the "**EUR Bonds**") has a nominal value of EUR 10,000 (the nominal value of RON Bonds or, as the case may be, of EUR Bonds being referred to as the "**Nominal Value**"). The RON Bonds and the EUR Bonds shall have the tenure and shall bear the interest rate established by the Issuer in consultation with the Managers and notified to investors through a pricing notification published on the Issuer's web site https://www.iib.int/en, on each Manager's website, http://www.btcapitalpartners.ro, https://www.ing.ro and https://www.brd.ro respectively, and on the website of the Bucharest Stock Exchange www.bvb.ro, on 10 October 2018. The interest on the EUR Bonds shall be paid in twelve-months arrears, while interest on the RON Bonds shall be paid in three-months arrears. The Bonds and any payments thereunder are governed by the relevant provisions of the "*Terms and conditions of the Bonds*" section of this Offering Circular. The Bonds are issued at their Nominal Value.

The Bonds are issued in registered form and evidenced by book-entry (in Romanian: *obligatiuni nominative in forma dematerializata*). The entity in charge of keeping the records of the Bonds is the Romanian Central Depository, a Romanian joint stock company having its registered office at 34-36 Carol I Blvd., 3rd, 8th and 9th floors, Bucharest, 020922, Romania (the "**Central Depository**"). The Bonds shall be registered in the system of the Central Depository in accordance with the regulations thereof, by the crediting of the accounts of the Bondholders opened with the Central Depository, directly or through a Participant.

The Bonds may also be made available to be held through International Central Securities Depositories (the "**ICSDs**") such as Clearstream Banking, societe anonyme ("**Clearstream**"), provided that a link between the respective ICSD and the Central Depository is available and utilised for such purpose. The Issuer makes no representation and provides no warranties as to the availability and utilisation of any such link and disclaims any responsibility to ensure that any such link is available and utilised. For further information please see the "*Settlement*" section of this Offering Circular.

An application shall be made for the Bonds to be admitted to trading on the International Bonds tier of the Regulated Spot Market of the Bucharest Stock Exchange. The Regulated Market of the Bucharest Stock Exchange is a regulated market in the European Economic Area for the purposes of Directive 2004/39/EC, as amended. The first day of trading of the Bonds on the Regulated Spot Market of the Bucharest Stock Exchange is expected to occur on or about 18 October 2018. At the discretion of the Issuer, an application may also be made for the Bonds to be admitted to trading on any other regulated market in the European Union.

The Issuer has been rated A3 with stable outlook by Moody's Investors Service, Inc. ("**Moody's**"), BBB with positive outlook by Fitch Ratings CIS Ltd ("**Fitch**"), BBB+ with stable outlook by Standard & Poor's Credit Market Services Europe Limited ("**S&P**") and A with positive outlook by Dagong Global Credit Rating Co., Ltd ("**Dagong**"). Fitch and S&P are established in the European Union and registered under the Regulation (EC) No. 1060/2009, as amended (the "**CRA Regulation**") and are included in the list of registered credit rating agencies published by the European Securities and Markets Authority on its website in accordance

with the CRA Regulation, whereas Moody's is a leading market intelligence services provider based in the United States and Dagong is a notable credit rating agency based in the People's Republic of China. Bonds issued under this Offering Circular are expected to be rated by at least two of the international rating agencies above under the terms of the Issuer's agreements with such agencies. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

This offering circular (the "**Offering Circular**") constitutes neither a prospectus nor a base prospectus for the purposes of the Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). Accordingly, this Offering Circular does not purport to meet the format and the disclosure requirements set forth under the Prospectus Directive and Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive, as amended, and it has not been and will not be submitted for approval to any competent authority within the meaning of the Prospectus Directive.

An investment in the Bonds involves risks. See "*Risk factors*" for a discussion of certain matters that investors should consider prior to making an investment in the Bonds.

The Offering does not constitute an offer to sell, or solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The Bonds have not been and will not be registered under the U.S. Securities Act of 1933 or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States. For a discussion of certain further restrictions on offers, sales and transfers of the Bonds and the distribution of this Offering Circular, see "*General information – Selling and transfer restrictions*".

MANAGERS

BT CAPITAL PARTNERS S.A.

BRD - GROUPE SOCIETE GENERALE S.A. **ING BANK N.V. AMSTERDAM SUCURSALA BUCURESTI**

Offering Circular dated 9 October 2018

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IMPORTANT NOTICES

General notices to investors

This Offering Circular is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire Bonds. Distribution of this Offering Circular to any person other than the prospective investor and any person retained to advise such prospective investor with respect to the purchase of Bonds is unauthorized, and any disclosure of any of the contents of this Offering Circular, without our prior written consent, is prohibited. Each prospective investor, by accepting delivery of this Offering Circular, agrees to the foregoing.

This Offering Circular contains information provided by the Issuer in connection with the issue of the Bonds. The Issuer accepts responsibility for the information contained in this Offering Circular.

The Issuer confirms that this Offering Circular is true and accurate in all material respects and is not misleading in any material respect, that any opinions, predictions or intentions expressed herein are honestly held or made and are not misleading in any material respect, that to the best of the Issuer's knowledge and belief this Offering Circular does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the issue, offering and sale of the Bonds) not misleading in any material respect, and that all reasonable enquiries have been made to verify the foregoing. However, the information set out under the section "*Description of the Issuer – Relevant geographic markets*" includes extracts from information and data released by publicly available sources in Europe and elsewhere. While we accept responsibility for the accurate extraction and summarization of such information and data, we have not independently verified the accuracy of such information and data and we accept no further responsibility in respect thereof. In addition, this Offering Circular contains summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by such reference. However, as far as we are aware, no information or data has been omitted which would render reproduced information inaccurate or misleading.

Pursuant to a mandate letter dated 8 October 2018, the Issuer has appointed BT Capital Partners S.A. as lead manager, bookrunner and calculation agent ("**BTCP**" or the "**Lead Manager**"), BRD - Groupe Societe Generale S.A. as co-manager and joint bookrunner ("**BRD**" or the "**Co-Manager**"), ING BANK N.V. Amsterdam Sucursala Bucuresti as co-manager and joint bookrunner ("**ING**" or the "**Co-Manager**") and Banca Transilvania S.A. as paying agent (the "**Paying Agent**"), in connection with the issuance of the Bonds, subject to terms of the contractual arrangements entered into by the foregoing parties (BTCP, BRD and ING are hereinafter each referred to as a "**Manager**", and collectively referred to as the "**Managers**").

Neither the Managers nor any of their affiliates make any representation, warranty or undertaking, express or implied, or accept any responsibility or liability, as to the accuracy or completeness at any time of the information contained in this Offering Circular. No person has been authorised by the Issuer or any of the Managers to give any information or to make any representation not contained herein, and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Managers. Neither the delivery of this Offering Circular, nor the offering, sale or delivery of any Bonds shall, under any circumstances, create any implication that the information contained in this Offering Circular is true subsequent to the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no change in the financial situation of the Issuer or the information presented herein since the date hereof or, if later, the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Bonds is correct at any time subsequent to the date on which it is supplied or, if different, to the date indicated in the document containing the same.

Neither this Offering Circular, nor any other information supplied in connection with issue of the Bonds: (i) is intended to provide the basis for any credit or other evaluation; or (ii) should be considered as a recommendation by the Issuer or any Manager that any recipient of this Offering Circular, or any other information supplied relating to the issue of the Bonds, should purchase any Bonds. Each investor contemplating the purchase of any Bonds should make its own independent investigation of its financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer, as well as the risks involved, as it deems necessary. Neither this Offering Circular, nor any other information supplied in connection with the issue of any Bonds, constitutes an offer or invitation by or on behalf of the Issuer or any Manager to any person to subscribe to or purchase any Bonds. In addition, neither

the Issuer nor the Managers or any of their affiliates are making any representation regarding the legality of an investment in the Bonds, and investors should not construe anything in this Offering Circular as legal, business or tax advice. Investors should consult their own advisors as to legal, tax, business, financial and related aspects of an investment in the Bonds. Investors must comply with all laws applicable in any jurisdiction in which they buy, offer or sell the Bonds or possess or distribute this Offering Circular, and must obtain all applicable consents and approvals; neither the Issuer nor any Manager shall have any responsibility for any of the foregoing legal requirements.

The distribution of this Offering Circular and the offering, sale and delivery of the Bonds in certain jurisdictions may be restricted by law. Persons who come into possession of this Offering Circular are required to inform themselves of and observe any such restrictions. In particular, such persons are required to comply with the restrictions on the offer or sale of Bonds and on the distribution of this Offering Circular and other information in relation to the Bonds set out under "*General information – Selling and transfer restrictions*" section below.

By receiving this Offering Circular, investors acknowledge that they have had an opportunity to request from the Issuer for review, and that they have received, all additional information they deem necessary to verify the accuracy and completeness of the information contained in this Offering Circular. Investors also acknowledge that they have not relied on any Manager in connection with their investigation of the accuracy of this information or their decision whether to invest in the Bonds.

NOTHING IN THIS OFFERING CIRCULAR CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE BONDS HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES ("U.S.") OR OTHER JURISDICTION AND SUCH BONDS MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT). NONE OF THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION OR ANY OTHER U.S. REGULATORY AUTHORITY, HAS APPROVED OR DISAPPROVED THE BONDS NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ACCURACY OR ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Issuer and the Managers reserve the right to reject any offer to purchase the Bonds, in whole or in part for any reason or no reason and to allot to any prospective purchaser less than the full amount of the Bonds sought by it. The Managers and certain of its affiliates may acquire a portion of the Bonds for their own accounts.

Neither the Issuer nor the Managers can guarantee that the application made to the Bucharest Stock Exchange for the Bonds to be listed and admitted to trading on the Regulated Spot Market thereof will be approved as of the settlement date for the Bonds or at any time thereafter, and settlement of the Bonds is not conditional on obtaining this admission to trading.

Each purchaser of the Bonds will be deemed to have made the representations, warranties and acknowledgements that are described in this Offering Circular under the "*Important notices*" section of this Offering Circular.

The Offering is only addressed to investors in Romania who are "qualified investors" within the meaning of article 2(1)(e) of the Prospectus Directive ("**Qualified Investors**") and/or to less than 150 natural or legal persons, other than Qualified Investors per member state and to such other investors in Romania or such other member states of the European Economic Area where it is possible to do so, in reliance of Regulation S and without the need to publish a prospectus or undertake any other formalities whatsoever under applicable law in reliance on article 3(2) of the Prospectus Directive, to the extent, and only provided that, an investment in the Bonds does not constitute a violation of any applicable law by such investors. In addition, in the United Kingdom, the Offering is directed only at Qualified Investors (x) who have professional experience in matters relating to investments falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Financial Promotion Order**") and Qualified Investors falling within article 49(2)(a) to (d) of the Financial Promotion Order and (y) to whom it may otherwise lawfully be directed (all such persons together being referred to as "**relevant persons**").

This document is not a prospectus and this Offering Circular has not been approved by the Romanian Financial Supervisory Authority or any other competent Romanian authority. This Offering Circular and any document or advertisement in connection with the Bonds may not be distributed or published in Romania, except in circumstances which (i) do not constitute a public offering of securities which requires the approval of a prospectus, public offer announcement or any other document in Romania or by Romanian authorities and (ii) comply with all applicable laws and regulations, including the Law no. 297/2004 on the capital market, as amended, Law no. 24/2017 on issuers of financial instruments and market operations, Regulation no. 5/2018 on issuers of financial instruments and market operations, implementing norms issued or approved by the Romanian National Securities Commission, the Romanian Financial Supervisory Authority or any other competent Romanian authority and applicable European Union ("**EU**") legislation. The Bonds can be acquired by investors only in such a manner that no approval from the Romanian Financial Supervisory Authority or any other competent Romanian authority is needed. The Bonds may be offered in Romania on the basis of the exemptions from the obligation to prepare and publish a prospectus provided by the applicable capital markets legislations.

Presentation of financial and other information

The unaudited reviewed interim condensed consolidated financial statements of the Issuer's group for the six-month period ended 30 June 2017 and, respectively, 30 June 2018 (the "**Interim Unaudited Financial Statements**") and the audited consolidated financial statements of the Issuer's group for the years ended 31 December 2015, 31 December 2016 and, respectively, 31 December 2017 (the "**Audited Financial Statements**" collectively with the Interim Unaudited Financial Statements, the "**Financial Statements**") are attached to this Offering Circular.

The Audited Financial Statements have been prepared in accordance with the International Financial Reporting Standards ("**IFRS**"). Presentation of financial information in accordance with IFRS requires management to make various estimates and assumptions which may impact the values shown in the financial statements and bonds thereto. The actual values may differ from such assumptions. The Interim Unaudited Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34.

The Financial Statements are presented in EUR, the functional and presentation currency of the Issuer. Furthermore, unless otherwise indicated, financial and statistical data included in this Offering Circular is expressed in EUR million. All financial data on the Issuer are presented on a consolidated basis, unless indicated otherwise.

Unless otherwise stated, all annual information is based on calendar years. Statistical data appearing in this Offering Circular has, unless otherwise stated, been principally obtained from the Eurostat, European Commission, International Monetary Fund, World Bank, Standard and Poor's, Moody's and Fitch. Similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Certain statistical information relating to 2018 and future periods should be treated as preliminary and any statistical information may be subject to future adjustment.

Certain financial measures presented in this Offering Circular, including some of the measures presented in "*Description of the Issuer – Risk management*". Because these measures are not standardized, companies can define and calculate these measures differently and therefore investors are advised not to use these measures for comparing the Issuer's results with those of other companies or issuers.

Certain figures included in this Offering Circular have been subject to rounding adjustments and presented in EUR million or EUR billion (not in EUR thousand as in the Financial Statements). Accordingly, in certain instances the sum of numbers in a column or a row in tables contained in this Offering Circular may not conform exactly to the total figure given for that column or row. Some percentages in the tables and/or text in this Offering Circular have also been rounded, and accordingly the totals in these tables and/or may not exactly add up to 100%. Percentage changes during the compared periods were computed on the basis of the original amounts.

Documents incorporated by reference. Website

This Offering Circular should be read and construed in conjunction with the Financial Statements of the Issuer which shall be incorporated in, and form part of, this Offering Circular. Any documents themselves incorporated by reference in the documents incorporated by reference shall not form part of this Offering Circular.

The contents of the Issuer's websites do not form any part of this Offering Circular. The website is mainly addressed to potential clients of the Issuer's services and, therefore, information available on the Issuer's website may differ

in content or may be organized differently than information in this Offering Circular. For the purposes of making an investment decision regarding the Bonds, you should not rely on the information on the Issuer's website.

Cautionary note regarding forward-looking statements

Certain statements in this Offering Circular are not historical facts and are forward-looking. The Issuer may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. In addition, this Offering Circular includes forward-looking information that has been extracted from third-party sources. Forward-looking statements include statements concerning the Issuer's plans, expectations, projections, objectives, targets, goals, strategies, future events, future operating revenues or performance, capital expenditures, financing needs, plans or intentions relating to business, competitive strengths and weaknesses, strategy, and the trends the Issuer anticipates in the industries and the political and legal environments in which the Issuer operates and other information that is not historical information.

Words such as "believe", "anticipate", "estimate", "target", "potential", "expect", "intend", "predict", "project", "could", "should", "may", "will", "plan", "aim", "seek" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

The forward-looking statements contained in this Offering Circular are largely based on the Issuer's expectations, which reflect estimates and assumptions made by its management. These estimates and assumptions reflect the Issuer's management best judgment based on currently known market conditions and other factors, some of which are discussed below. Although the Issuer believes such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond the Issuer's control. In addition, management's assumptions about future events may prove to be inaccurate. The Issuer cautions all readers that the forward-looking statements contained in this Offering Circular are not guarantees of future performance, and the Issuer does not undertake any obligation and cannot assure any reader that such statements will be realized or the forward-looking events and circumstances will occur.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, many of which are beyond the Issuer's control, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under "*Risk Factors*", as well as those included elsewhere in this Offering Circular. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

This list of important factors and the other factors discussed in "*Risk Factors*" is not exhaustive. Other sections of this Offering Circular describe additional factors that could adversely affect the Issuer's results of operations, financial condition, liquidity and the development of the industry in which the Issuer operates. New risks can emerge from time to time, and it is not possible for the Issuer to predict all such risks, nor can the Issuer assess the impact of all such risks on its business or the extent to which any risks, or combination of risks and other factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not rely on forward-looking statements as a prediction of actual results.

Any forward-looking statements are only made as of the date of this Offering Circular. Accordingly, the Issuer does not intend, and does not undertake any obligation, to update forward-looking statements set forth in this Offering Circular. Investors should interpret all subsequent written or oral forward-looking statements attributable to the Issuer or to persons acting on its behalf as being qualified by the cautionary statements in this Offering Circular. As a result, investors should not place undue reliance on such forward-looking statements.

Currencies

In this Offering Circular, references to "euro," "EUR," "€" or "eurocents" are to the currency of the member states of the European Union participating in the European Monetary Union, references to "U.S. dollar" or "USD" are to the currency of the United States, references to "Romanian leu," "RON," "leu" (singular) or "lei" (plural) are to the currency of Romania, references to "RUB" are to the currency of the Russian Federation, references to "CZK" are to currency of the Czech Republic and references to "HUF" are to currency of Hungary.

No representation is made that any specific currency amount in this Offering Circular could have been converted into any of the other currencies presented in this Offering Circular at any particular rate or at all. There are limited

markets for the Romanian leu outside Romania and for the RUB outside the Russian Federation. The limited availability of such currencies may lead to volatility of exchange rates.

Unless otherwise indicated herein and unless such amounts are derived from the Financial Statements, the EUR equivalent of amounts denominated in RUB, USD and other currencies has been computed based on the average and rounded exchange rate applicable as of 30 June 2018. The above rates may differ from the actual rates used in the preparation of the Financial Statements and other financial information appearing in this Offering Circular.

OVERVIEW OF THE BONDS

The following is only a brief summary of key features of the issue of the Bonds, does not purport to be complete description of the Bonds or the Offering and should be read in conjunction with the rest of this Offering Circular. Certain of the terms and conditions described below are subject to important limitations and exceptions. In particular, prospective investors are advised to consult the "Terms and conditions of the Bonds" section of this Offering Circular for a more detailed description of the terms and conditions governing the Bonds, including definitions of certain terms used in this overview.

Issuer	International Investment Bank *7 Mashi Poryvaevoy St.,* *Moscow, 107078, Russian Federation*
Managers	BT Capital Partners S.A. *74-76 Constantin Brancusi Street, Brancusi Business Center, ground floor, Cluj-Napoca,* *Cluj county, Romania* *(performing the functions of Lead Manager, joint bookrunner and calculation agent in connection with the Offering)* BRD - Groupe Société Générale S.A. *1 – 7 Ion Mihalache Blvd,* *1st district, Bucharest, Romania* *(performing the functions of co-manager and joint bookrunner in connection with the Offering)* ING Bank N.V. Amsterdam Sucursala Bucuresti *48 Iancu de Hunedoara Blvd, ground floor – 12th floor + 14th floor* *1st district, Bucharest, Romania* *(performing the functions of co-manager and joint bookrunner in connection with the Offering)* *(each of BT Capital Partners S.A., BRD - Groupe Société Générale S.A. and ING Bank N.V. Amsterdam Sucursala Bucuresti are hereinafter referred to as the "**Managers**")*
Paying Agent	Banca Transilvania S.A. *8 George Baritiu Street, Cluj-Napoca,* *Cluj county, Romania*
Registrar and depository	Depozitarul Central S.A. *34-36 Carol I Blvd., 3rd, 8th and 9th floors* *Bucharest, Romania*
Aggregate minimum and maximum principal value of the Bonds offered	The final aggregate minimum and maximum principal value of the Original RON Bonds offered hereunder and/or of the Original EUR Bonds offered hereunder shall be established by the Issuer in consultation with the Managers, and announced to investors through the Pricing Notification which shall be published on the Issuer's web site https://www.iib.int/en, on each of the Managers' websites http://www.btcapitalpartners.ro, https://www.ing.ro and

	https://www.brd.ro/en respectively, and on the website of the Bucharest Stock Exchange www.bvb.ro, on 10 October 2018. The final aggregate minimum and maximum principal value of the New RON Bonds offered and/or of the New EUR Bonds offered (to the extent the Issuer launches a tap issue of Bonds in accordance with the provisions of Condition 3.1 of theTerms and Conditions of the Bonds) shall be established by the Issuer in consultation with the Managers, and announced to investors through the Tap Pricing Notification, which shall be published on the Issuer's web site https://www.iib.int/en, on each of the Managers' websites http://www.btcapitalpartners.ro, https://www.ing.ro and https://www.brd.ro/en respectively, and on the website of the Bucharest Stock Exchange www.bvb.ro,
Denomination	RON, for RON Bonds and EUR, for EUR Bonds.
Form of the Bonds	The Bonds are issued in registered form and evidenced by book-entry (in Romanian: *obligatiuni nominative in forma dematerializata*).
Nominal Value	RON 10,000 for RON-denominated Bonds and EUR 10,000 for EUR-denominated Bonds.
Transaction Date	11 October 2018
Issue Date	15 October 2018
Maturity Date	The tenor and the maturity date of the RON Bonds offered hereunder and of the EUR Bonds offered hereunder shall be of three (3) years from the Issue Date.
Issue Price per Original Bond	Both Original RON Bonds and/or Original EUR Bonds, are issued at their respective Nominal Value.
Issue Price per New Bond	New RON Bonds and/or New EUR Bonds, will be issued at the price which shall be established by the Issuer in consultation with the Managers, and announced to investors through the Tap Pricing Notification, which shall be published on the Issuer's web site https://www.iib.int/en, on each of the Managers' websites http://www.btcapitalpartners.ro, https://www.ing.ro and https://www.brd.ro/en respectively, and on the website of the Bucharest Stock Exchange www.bvb.ro,
Interest Rate	RON Bonds shall bear the floating interest rate, while EUR Bonds shall bear the fixed rate, established by the Issuer in consultation with the Managers, and announced to investors through the Pricing Notification which shall be published on the Issuer's web site https://www.iib.int/en, on each of the Managers' websites at http://www.btcapitalpartners.ro, https://www.ing.ro and https://www.brd.ro/en, respectively, and on the website of the Bucharest Stock Exchange www.bvb.ro, on 10 October 2018 (see "*Subscription and sale – Establishment of the principal value, Interest Rate and maturity of the Bonds*").
Interest Payment Date	Interest will be payable in annual arrears on 15 October of each year from and excluding the Issue Date and until and including the relevant Maturity Date for EUR Bonds and in quarterly arrears on 15 January, 15 April, 15 July and 15 October of each year from and excluding the Issue Date and until and including the relevant Maturity Date for RON Bonds.
Status and ranking of the Bonds	The obligations under the Bonds will constitute direct, unsecured, unconditional and unsubordinated obligations of the Issuer ranking *pari*

	passu among themselves and as to the order of their satisfaction and at least *pari passu* to all other current and future direct, unsecured, unconditional and unsubordinated obligations of the Issuer, except for those obligations of the Issuer so identified by the mandatory provisions of law and provided, however, that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other obligations and, in particular, the Issuer shall have no obligation to pay other obligations at the same time or as a condition of paying sums due on the Bonds and/or applicable interest and *vice versa*.
Redemption	The Bonds shall be redeemed at par on their respective Maturity Date.
Early redemption at the Issuer's option	The Bonds may not be redeemed by the Issuer before their respective Maturity Date. However, the Issuer may at any time purchase any Bonds on the secondary market, under any conditions and for any market price. The Bonds thus purchased by the Issuer shall not cease to exist and may be kept, resold or cancelled by the Issuer, at its sole discretion. The rights and obligations under the Bonds purchased by the Issuer shall cease to exist due to their amalgamation in a single person at the earlier of: (i) cancellation by the Issuer and (ii) their respective Maturity Date.
Early redemption upon an Event of Default	Each Bondholder will have the right to declare all Bonds (but not some only) held by that Bondholder immediately due and payable and require the Issuer to pay the Nominal Value of each Bond held by that Bondholder together with any accrued interest, by a written notification to the Issuer, if an Event of Default occurs and is continuing.
Gross-up	All payments in respect of Bonds will be made free and clear of withholding taxes of Romania, unless the withholding is required by law. In that event, the Issuer will (subject to, and save as provided in, "*Terms and conditions of the Bonds* – 12.5 "*Gross-up*") pay such additional amounts as will result in the Bondholders receiving such amounts as they would have received in respect of such Bonds had no such withholding been required.
Taxation	For certain considerations regarding the taxation of payments related to the Bonds see Part "*Taxation*".
Governing law and jurisdiction	Any rights and obligations arising under or in connection with the Bonds will be governed and construed in accordance with the laws of Romania. Any disputes between the Issuer and the Bondholders regarding the Bonds will be resolved by the relevant competent court of Romania. The Issuer irrevocably waives any objection which it might now or hereafter have (for reasons of its status, immunity or otherwise) to the Romanian courts being nominated as the forum to hear and determine any proceedings and to settle any disputes regarding the Bonds.
Listing	Application has been made to the Bucharest Stock Exchange for the Bonds to be admitted to trading on the Regulated Spot Market thereof (see Part "*Subscription and sale – Listing on the Bucharest Stock Exchange*"). The Issuer may apply for admission of the Bonds to trading on other regulated markets in the European Union.
Use of proceeds	The net proceeds of the Bonds issue shall be used by the Issuer to finance its existing loan portfolio and new lending to its EU Member States and for debt refinancing (see Part "*Description of the Issuer – Mission*" and "*Description of the Issuer – Strategy*").

Risk factors	Investing in the Bonds involves risk. See Part "*Risk factors*" section for a description of certain of the risks investors should carefully consider before investing in the Bonds.
Selling and transfer restrictions	The Bonds are subject to certain restrictions on sale and transfer. For a description of certain restrictions on offers, sales and deliveries of Bonds and on the distribution of offering materials see Part "*General information – Selling and transfer restrictions*".

RISK FACTORS

An investment in the Bonds involves a high degree of risk. Prospective investors should carefully consider the risks described below, together with the information contained elsewhere in this Offering Circular, before deciding whether to invest in the Bonds. Any of the following risks, individually or together, could have a material adverse effect on the Issuer's or the Issuer's group's (the "Group") business, financial condition and results of operations or prospects, which could impair the Issuer's ability to fulfil its obligations under the Bonds or the trading price of the Bonds, potentially causing a loss of all or part of the investment made when purchasing the Bonds.

The Issuer has described below certain risks and uncertainties that it believes are material as at the date of this Offering Circular, but these risks and uncertainties may not be the only ones the Issuer or the Group faces. Additional risks and uncertainties relating to the Issuer or the Group may also have adverse effects on the Issuer or the Group's business, financial condition, results of operations and future prospects and, consequently, on the trading price of the Bonds. Any of such risks could impair the Issuer's ability to fulfil its obligations under the Bonds or the trading price of the Bonds, and investors could lose all or part of their investment.

The following risks relate to the Issuer's and the Group's business and the environment in which the Issuer and the Group operate. The order in which the risks are presented does not necessarily reflect the likelihood of their occurrence or the magnitude of their potential impact on the Issuer's or the Group's business, financial condition, results of operations, future prospects or the trading price of the Bonds.

In particular, the Issuer's operations are carried out across a wide region. As an international organisation composed of its Member States, its results of operations are significantly affected by economic conditions in its Member States which may be, in turn, adversely affected by the global financial and European sovereign debt crises and remain vulnerable to further external shocks.

Investors should consider carefully whether an investment in the Bonds is suitable for them and determine for themselves the relevance of the information contained in this Offering Circular. Any investment in the Bonds should be based upon individual investigation, assessment of the risks involved and determination of the suitability of an investment in the Bonds, by each prospective investor, with particular reference to its own investment objectives and experience and any other factors that may be relevant to such investor in connection with the investment in the Bonds.

Risk factors related to the Issuer and its Group

Risks related to global events in financial and economic markets

Social and economic disruptions stemming from the crises in Europe have affected in the past and may affect in the future the geographic market in which the Issuer operates (see *"Description of the Issuer – Relevant Geographic Markets"*). Such crises may result in a downturn and decrease in spending and investment in the relevant markets, potentially leading to an increase in costs due to currency fluctuations and legal and regulatory changes. These factors could increase the Issuer's operating costs or otherwise adversely affect the Issuer's business, prospects, results of operations and financial condition.

In particular, the reduction in recent years quantitative easing and the exit from the era of ultra-low interest rates in the Eurozone may lead to spill-over effects for some of the Issuer's key markets, notably the five EU countries in Central and Eastern Europe. These countries are an intrinsic part of the European supply chain as well as a major recipient of financial flows coming from core European Union countries. Higher interest rates in the Eurozone may negatively impact both the economic growth of core Europe countries (Germany, France, Netherlands etc.) and thus spill over into the Central and Eastern European region as well as more directly through higher interest rates in the Central and Eastern European region as financial fund flows return to core Europe.

An additional risk is any potential for a trade war that could cause a restructuring of global supply chains and thus it may negatively impact the growth potential of the Central and Eastern European region. Many of the Issuer's operating countries are open economies with a large share of exports to GDP and in the event of slowdown in global trade this would negatively impact the growth dynamics of these countries.

Another event which has spurred significant volatility in the global financial markets is the vote cast in the United Kingdom referendum in favour of United Kingdom's exit from the European Union. Concerns that other member states of the European Union may express their intention to leave the European Union have also been amplified by the results of the United Kingdom referendum. Until the legal, political and economic terms and consequences of United Kingdom's exit from the European Union are settled, it is likely that the situation is likely to continue to adversely affect European and worldwide economic conditions.

Prospective investors should ensure that they have sufficient knowledge and awareness of global financial and economic developments, the crises faced by the European Union and the economic situation and outlook in the states in which the Issuer operates, or whose economical or financial situation may otherwise impact the Issuer, as they consider necessary to enable them to make their own evaluation (including in consultation with any tax, legal and financial advisors as it deems necessary) of the risks and merits of an investment in the Bonds. In particular, prospective investors should take into account the current uncertainty as to how the crises faced by the European Union and the wider global economic situation will develop over time and how they will affect the Issuer's financial condition, as well as its business, prospects and results of operations.

Risk related to the operations in emerging markets in general

An investment in emerging markets, such as some of the Member States of the Issuer, being the respective jurisdictions of the Issuer's Member States in which a significant part of its business is undertaken and its customers and assets are located, is subject to greater risks, including in some cases significant legal, economic and political risks, than an investment in more developed markets. Investors should be aware that these risks may be applicable to the Issuer notwithstanding that its status as an international organisation affords it certain privileges, immunities and political protection. Investors should also note that emerging markets are subject to rapid change and that the information set out in this Offering Circular may become outdated relatively quickly.

In addition, international investors' reactions to events occurring in one country sometimes demonstrate a "contagion" effect, in which an entire region or class of investment is disfavoured by international investors. Therefore, investment in the Bonds, as in any other comparable security, could be adversely affected by negative economic or financial developments in other countries, particularly its Member States. There also can be no assurance that conditions resulting from any crises similar to the global financial and economic crisis that started in 2008, the European sovereign debt crisis or the recent social and political turmoil in Europe, the Middle East and Africa and disruption in European financial markets caused by the United Kingdom's envisaged exit from the European Union will not negatively affect the economic performance of, or investor confidence in, developing markets, including the Member States and, hence, the Bonds.

Deterioration of Russia's relations with other countries may adversely impact the Issuer's operations and financial condition

The Issuer is a supranational multilateral development bank with nine sovereign shareholders. Therefore, the Issuer is measured and rated in the context of the specific country risks and credit ratings of its sovereign members. The Issuer's mission is to facilitate connectivity and integration between the economies of its Member States in order to ensure sustainable and inclusive growth, competitiveness of national economies, backed by the existing historical tie" and to this end the Issuer maintains a political impartiality.

In this context, the recent crisis in Ukraine and responses by the EU, the United States, and other countries to the Russian Federation's actions relating to Ukraine create significant political and economic uncertainty which could adversely impact the Group's business and financial condition.

The significant civil unrest and political instability in Ukraine has affected the relations between the Russian Federation and other countries. In March 2014, the European Union (EU) and United States (U.S.) enacted sanctions against Russia in response to its actions in Crimea and support for groups in eastern Ukraine.

The foregoing events have resulted, and may result in the future, in significant volatility on Russian stock exchanges and the securities of Russian issuers traded on foreign exchanges, significant overall price declines and capital outflow, and significant volatility in the exchange rate of the RUB against the USD and the EUR. These and other sanctions, restrictions or other measures may result in a further deterioration of economic conditions in the Russian Federation.

The Issuer is an international organisation which is directly exempted from the sanctions imposed by the Council Regulation (EU) 833/2014 of 31 July 2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine

Another recent point of tension and debate between Russia and Western governments has been the Russian role in the Syrian crisis and its support for the Syrian Government.

In July 2017 Russia reached an agreement with the U.S. and Jordan for a ceasefire to be established in an additional southern zone, where Russian military police have been deployed. Under a second agreement between Russia, Iran and Turkey in July, Moscow also set up checkpoints and observation posts in an area covering conflict-torn near Damascus. A third safe zone is to be established as part of a plan worked out between Russia, Iran and Turkey at recent peace talks in Kazakhstan. While the de-escalation zone creation is only the first step in the plan to stabilize the situation in Syria, the ceasefire in these areas has been holding, allowing to state a certain stabilization in this conflict. On 6 July 2018, Russia and Syrian rebel groups have reached an interim ceasefire agreement in Syria's southern province of Daraa after weeks of violence in the area. Albeit showing positive dynamic towards a solution, this conflict still remains an inflection point in Russia's relationship with Western countries, with the U.S., the European Union and a number of other states voicing the possibility of sanctions to be imposed on Russia in case it decides to increase its profile in the Syrian conflict.

Low oil prices, RUB depreciation, inflation and capital flight have also caused the Russian economy to face recession, particularly during 2015 and 2016. The weakening of the Russian economy and the deterioration of Government finances (which rely significantly on taxes on oil revenues) has also led to international rating agencies to lower Russia's credit ratings. However, in 2016 and early 2017, Russia's economy largely stabilized on the back of higher oil prices. Russia's economy showed positive growth in Q4 2017 and Q1 2018 (source: IMF), with its credit ratings being upgraded (S&P: BBB– with positive outlook; Moody's: positive outlook; Fitch: positive outlook).

To the extent the Issuer (although being a self-standing international organisation) is perceived as having a strong connection to the Russian Federation and since the Issuer is directly and indirectly financially exposed to entities in the Russian Federation, a downturn in general economic conditions in the Russian Federation and other Member States as a result of the Ukraine-related sanctions and/or the ongoing conflict between the Russian Federation and Ukraine could have a material adverse effect on the Group's business, results of operations, financial condition or prospects. Ongoing or heightened tensions between Russia and the United States, member states of the EU, Ukraine or other countries, the imposition of further sanctions on Russian persons and entities, or the impact of actions taken by the Russian government in response to actions by the United States, EU and other governments, could have a further adverse effect on the Russian economy and consequently, could have an adverse effect on the Group's business, financial condition, results of operations and prospects. However, the diverse shareholding of the Issuer and its strategy of diversification its treasury assets, source of funding and lending portfolio has reduced significantly the idiosyncratic effects of negative consequences derived from various exogenous factors such as sanctions this being proved by the developments of the Issuer financials in the latest years as well as the recent rating upgrades from Standard and Poor's and Moody's in the context of a set of sanctions applied by US on Russian individuals in April 2018. Therefore, IIB's ratings and outlook was decoupled from the rating or developments in a market of a specific Member State (such as in the case Russia).

Credit risk faced by the Issuer in general

The Issuer's business exposes it to credit risk. The quality of the Issuer's credit exposures will have a significant impact on its earnings. While the Issuer estimates and establishes allowances for losses resulting from credit risks and expected credit losses inherent in its credit exposure, in accordance with IFRS, there is no assurance that the models and techniques used by the Issuer prove accurate in their predictions of future behaviour, valuations or estimates, particularly considering the uncertainty associated with current financial and economic market conditions. Any failure by the Issuer to accurately assess the creditworthiness of its clients or to estimate the value of potential losses for which allowances should be established could result in increased default rates of the Issuer's clients, adversely impacting the Issuer's cash flow and, potentially, its ability to comply with the obligations under its own borrowings.

As a result of the current economic uncertainty, the demand for borrowing from creditworthy customers may decline. In addition, there is a greater likelihood that more of the Issuer's customers or counterparties (including

other financial institutions) could become delinquent on their loans or other obligations to the Issuer, which, in turn, could result in a higher level of write-offs and provisions for credit losses or requirements that the Issuer purchase assets or provide other funding, any of which could adversely affect the Issuer's and its customers' business, prospects, financial condition, cash flows and results of operations.

The Issuer is building a track record of low and sustainable NPL levels (< 6%) following its relaunch in 2012, fact that is one of the pillars of the recent positive rating actions by the international rating agencies.

Credit risk due to lending concentration

For the purpose of achieving the Issuer's mission, which is to ensure sustainable and inclusive growth of the Member States, the Issuer's loan and trading portfolio includes, and is likely to continue to include, concentrations in particular Member States. Also, as at 30 June 2018, the Issuer had corporate gross loan portfolio in the amount of EUR 568.15, out of which 18% was provided to corporate clients based in the Russian Federation, 21% to corporate clients based in the Republic of Bulgaria, 15% to corporate clients based in Romania, 9% to corporate clients based in the Czech Republic, 5% to corporate clients based in Hungary, 16% to corporate clients based in Slovak Republic, 4% to corporate clients based in Mongolia and 12% to corporate clients based in other countries.

In terms of sector concentration, as at 30 June 2018, 23% out of the Issuer’s gross loan portfolio to corporate clients was provided to corporate clients active in the leasing industry and 26% to corporate clients active in the production and transmission of electricity, 9% was provided to clients active in each of metal working industry and communications, 5% to clients active in each of crude oil refining and advisory services, 4% to clients active in each of food and beverage, mining and manufacturing of electrical equipment, 3% to clients active in real estate industry, 2% to clients active in production of each of pharmaceutical products, agriculture, transport and oil and gas production industries.

Concerning he Issuer’s portfolio of loans extended to banks, loans granted to top five bank clients are considerably concentrated. As at 30 June 2018, the outstanding value of each of the loans extended by the Issuer to five bank clients exceeded 10% of the aggregate gross value of the Issuer’s portfolio of long-term loans to banks and trade financing loans. As at 30 June 2018, the Issuer’s exposure to such major bank clients amounted to EUR 132.5 million out of the total EUR 164.1 million long-term loans extended by the Issuer to banks. As at 30 June 2018, 34% of the long-term loans provided to banks were extended to banks based in Mongolia, 30% to banks based in Republic of Cuba, 15% to banks based in Vietnam and 21% in the other countries.

The concentration may result in an adverse impact on the business, prospects, financial condition, cash flows and results of operations of the Issuer if short-term economic changes particularly affect its largest customers, or its customers in the countries or business sectors to which its loan portfolio is concentrated and exposed. As a result, the Issuer is potentially subject to high credit risk concentration and earnings volatility.

Foreign exchange rate risk and interest rate risk

The Group conducts its business in various currencies including EUR, USD and RUB. As a financial institution, the Issuer is exposed to foreign exchange rate risk. Movements in foreign exchange rates may adversely impact the Issuer's borrowers, which may in turn adversely impact the nature of its exposure to these borrowers.

The Issuer manages its currency risk by seeking to match the currency of its assets with that of its liabilities on a currency-by-currency basis within the limits established by the Board. The Issuer is running a prudent open currency position, having set open currency position limits at 10% for single currency position and 15% for a cumulative currency position.The factual results are comfortable within the established limits at 1.26% of the capital for a single currency position and 2.34% for a cumulative currency position as of 30 June 2018, compared to 0.4% and, respectively, 0.72% as at 30 June 2017,

The performances of the Issuer are influenced by the trend and by the fluctuation in interest rates in the markets in which the Issuer carries out its activities. Any misalignment between interest incomes accrued by the Issuer and interest expense payable by the same (in the absence of suitable instruments for protecting against this misalignment), could have significant effects on the financial position and the Issuer’s operating results.

Even though the Issuer has implemented certain hedging strategies, the hedging arrangements entered into by the Issuer may not adequately offset the risks of foreign exchange rate fluctuations and may result in losses. Volatility

in foreign exchange rates and interest rates could adversely affect the Issuer's ability to meet its obligations under the Bonds and its business, financial condition and results of operations. Movements in interest rates may also affect the trading prices of the Bonds.

Market risk in connection with the investment portfolio

As of 30 June 2018, consolidated securities at fair value through other comprehensive income (2017: available-for-sale securities) balance of the Group was EUR 193.8 million. Since 1 January 2018, the Group reclassified a part of its securities previously classified as 'available for sale' to 'debt instruments measured at amortized cost' amounted EUR 41.4 million as of 30 June 2018. The majority of the portfolio is composed of sovereign bonds denominated in EUR and USD. Government bonds account for 22% of the portfolio and represent securities issued and guaranteed by the Ministries of Finance by governments of Member States and by governments of other countries. Corporate bonds, mainly issued by large companies and banks of Member States, as well as corporate international companies and development banks that have similar goals and missions with the Group, account for 78% of the portfolio. As a significant part of the Group's business is generated by trading activities relating to this portfolio, which is susceptible to market fluctuation and price volatility, prospects of the Group may be impaired by its ability to further finance this portfolio or to regain its investments. Market price fluctuations in the large investment security portfolio may therefore materially and adversely affect the Group's business, financial condition, results of operations and prospects. As of 30 June 2018, investment grade bonds represented 67% (including AAA-BBB-) of the total Issuer's debt securities portfolio.

Changes to IFRS for recognition and measurement methods for financial instruments

The adoption of IFRS 9 fundamentally changes the Group's accounting for allowances for expected credit losses by replacing the IAS 39 incurred loss approach with the forward-looking expected credit loss ("**ECL**") approach. Starting from 1 January 2018, the Group recognizes the allowance for ECL for all loans and other debt financial instruments not measured at fair value through profit or loss, as well as for loan commitments and financial guarantee contracts, which are collectively referred to as financial instruments in this section. According to IFRS 9, requirements for impairment are not applicable to equity instruments.

The allowance for ECL is based on credit losses expected to be incurred over the life of the underlying asset (lifetime ECL), if there has been a significant increase in credit risk since the date of initial recognition. Otherwise, the allowance for ECL is based on 12-month expected credit losses, which are part of lifetime ECL and represent ECL arising from defaults on a financial instrument expected to occur 12 months after the reporting date.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above, the Group classifies financial instruments issued and exposed to credit risk into 3 stages, stage 3 being correspondent to credit-impaired financial instruments. If the Group does not have reasonable expectations regarding recoverability of the financial asset in full or in part, the gross carrying amount of the asset should be decreased. Such a decrease is considered (a partial) derecognition of the financial asset.

The Group uses a wide range of forecast information as economic inputs for its ECL assessment models. Impairment losses and their reversal are accounted for and recorded separately from gain or loss from modification recognized as an adjustment to the gross carrying amount of financial assets.

The Group considers an increase in the credit risk related to a financial asset since the date of its initial recognition to be significant, if credit quality of a counterparty has deteriorated significantly and there are grounds to believe that this deterioration can adversely affect the counterparty's ability to meet its liabilities to the Group. In addition, the Group applies a qualitative tool to identify a significant increase in credit risk associated with an asset, e.g. a list of defaulting customers / non-performing instruments or asset restructuring.

Regardless of changes in ratings, an increase in credit risk since the date of initial recognition is considered significant, if contractual payments are over 30 days past due.

For ECL calculation purposes, the Group considers the financial instrument to be in default, and, therefore, includes it in Stage 3 (credit-impaired assets) whenever a borrower is 90 days late with contractual payments. In case of treasury or interbank transactions, the Group considers that there is a default and takes prompt remedy measures whenever the counterparty fails to make intraday payments required by specific agreements before the end of an operating day and the Group has no grounds to believe that this non-payment was a technical delay.

The Group estimates on an individual basis the ECL for all assets included in Stage 3.

This changes to financial reporting standard could however, result in substantial additional impairment charges for the Group and add volatility to its financial results. These and any other changes to IFRS that may be proposed in the future could have a material adverse effect on the Issuer's financial condition and results of operations.

The Issuer has limited operational history

Although the Issuer was founded in 1970, its post-Soviet operating history is relatively limited. The Issuer has adopted a new development strategy at the end of 2012 with an overall objective of transforming it into a modern international development bank. Most of the loans extended before 2012 were impaired and written off or sold in 2013. New risk management system and policies, as well as international standards such as the IFRS and Basel II were approved by the Council of the Issuer (supreme governing body, consisting of representatives of the Member States) and implemented only relatively recently at the level of the Issuer. As a result of the Issuer's renewed strategy implemented as of 2013 and the reinvigoration of the Issuer's activity, during the past two financial years (as at 31 December 2017 compared to 31 December 2015), the Issuer's net loan portfolio grew by 116.8%, whereas the Issuer's investment securities portfolio registered a 10% decrease. As of June 2017, the Issuer has reviewed and reinforced its development strategy, aiming at doubling its assets and loan portfolio within a five-year horizon, while transforming into an advanced, rapidly expanding and financially sustainable multilateral development bank.

Prospective investors may therefore base their evaluation of an investment in the Bonds on a limited operating history of the Issuer. There can be no assurance that the Issuer will be successful in implementing its business strategy in the future or that its business will continue to grow at a similar or comparable rate, and any failure to do so could have a material adverse effect on its business, prospects, financial condition, cash flows and results of operations.

Profitability is not a key driver for the Issuer

The Issuer's lending and investment activities are aimed at supporting development projects in the Member States. As for other multilateral development banks, profitability is not the key driver for Issuer. Also, operations in some of the Member States in some type of projects may involve lower rate of returns than other purely commercial lending entities would expect or demand. Profitability of the investment projects does not, therefore, represent the Issuer's main objective and may remain low despite the expected rise in the interest income as the loan portfolio grows. As a result, although the Issuer has implemented robust risk management and credit approval systems, future profitability may be restrained owing to the nature of the Issuer's development lending business, which in turn may have a negative impact on the financial conditions and prospects of the Issuer.

Withdrawal of a Member State may adversely affect the Issuer's financial condition and operations

The Issuer's Statutory Documents provide that any Member State may withdraw its membership by giving the Issuer a written six months' notice to that effect. The outstanding rights and obligations including with regard to withdrawal of contributed capital are subject to and shall be governed by the provisions of the Statute and the relevant decisions of the Board of Governors. Poland and Hungary withdrew from the Issuer in 1999 and 2000 respectively, but due to the absence of a clear procedure of a Member State's withdrawal that would apply then, a final decision concerning the settlement of their rights and obligations with the Issuer was delayed and made by the Issuer's Council only in 2012. A new withdrawal procedure may be approved in the future by the Board of Governors but the relevant provisions of the statutory documents provides with detailed withdrawal procedure which leave very few issues to further specify in the separate document.

The withdrawal of a Member State may adversely affect the Issuer's capital and financial condition, as well as its business, prospects and results of operations.

Hungary re-joined the Issuer in 2015, after having previously decided to terminate its membership in the Issuer in 2000. The Issuer's Council approved Hungary's request to re-join the Issuer in November 2014 and Hungary ratified its membership in the Issuer and finalized all necessary procedures to obtain full voting rights in the Issuer in May 2015.

Conditions and actions of Member States may affect the Issuer

Although the Issuer is an international organisation having a legal personality separate from its Member States, the Issuer and its business operations may be affected by decisions of the Member States in their relations with other nations. The Issuer's operations are also subject to risks resulting from political and economic uncertainties, default under obligations and downturns in the economies of Member States as well the policies (such as monetary and financial) approved or pursued by Member States. The currently ongoing migrant crisis faced particularly, as of 2015, by European Member States of the Issuer also adds to civil tensions and political uncertainty within certain Member States of the Issuer. These decisions and circumstances may result in adverse effects on the Issuer and the business environment in which the Issuer and its counterparties operate, including the reduction or cessation of commercial activity by private counterparties as the result of perceived increases in operational risk, or more formal actions by countries or international organisations to limit or preclude business activity by their nationals or organisational participants with the Issuer or in the areas in which the Issuer operates.

No assurance can be given that such decisions and circumstances will not adversely affect the creditworthiness of borrowers and increase the Issuer's funding costs, and accordingly, adversely affect the Issuer's business, prospects, financial condition, cash flows and results of operations.

The Bonds are not guaranteed by any sovereign

The Issuer currently has nine members, namely: Czech Republic, Hungary, Mongolia, Republic of Bulgaria, Republic of Cuba, Romania, Russian Federation, Slovak Republic and Socialist Republic of Vietnam (the "**Member States**").

Although the Member States are sovereign states, the Issuer is a legal entity which is separate from the governments of its Member States and the agencies of such governments. The Bonds, interest or other amounts due or to become due in respect of the Bonds, constitute obligations solely of the Issuer and do not constitute the obligation of, nor are they guaranteed or insured by, the Russian Federation, Romania or any other Member State or sovereign entity or agency thereof. However, it should be noted that beyond its regular equity the Issuer is benefiting by the so-called callable capital (amounting currently to Euro 805.538 million). This is an additional source of capital that could be called/used by the Issuer in case there is a default risk related to the payment of its debt service.

The Issuer is not subject to external regulatory oversight and, therefore, may choose to discontinue the application of international standards

The Issuer is an international organisation established and operating on the basis of the intergovernmental Agreement on the Establishment of the International Investment Bank of 10 July 1970, (the "**Establishment Agreement**") and the Statutes of the International Investment Bank attached to the Establishment Agreement (the "**Statutes**", together with the Establishment Agreement, the "**Statutory Documents**"), initially registered with the Secretariat of the United Nations on 1 December 1971 under number 11417. In May 2014, the Members have adopted the Protocol Amending the Agreement Establishing the International Investment Bank and its Charter, which after ratification by all Member States entered into force on 18 August 2018.

The Issuer is an entity acting under the rules, and subject to the provisions of the public international law. The Issuer's existence, powers, privileges, immunities, liabilities and operations are subject to and governed by the Statutory Documents.

In principle, due to its status as international organisation, the Issuer is not subject to regulation by any Member State and, therefore, exempt from the external regulatory oversight to which similar domestic financial institutions established in its Member States are subject. All policies and procedures approved by the governing bodies to govern the Issuer's internal operations in accordance with international standards, such as Basel II standards and International Financial Reporting Standards (IFRS), have been adopted by the Issuer on a voluntary basis and the Issuer has no obligation to continue to apply such standards, undergo a verification of the application of such standards or update its policies or practices in line with any amendments to such international standards. There is no assurance that, if the Issuer chooses to discontinue the application of such standards in order to pursue its mission and objectives in a different manner or by reference to other standards, the operations, business or prospects of the Issuer would remain unaffected.

The Group's ability to raise additional financing is in part dependent on the Issuer's credit ratings

The Group's ability to access the capital markets and other forms of financing (or refinancing), and the costs connected with such activities, depend in part on the Issuer's credit ratings. As at the date of this Offering Circular, the Issuer has a long-term foreign currency issuer default rating of A3 with stable outlook by Moody's, BBB with a positive outlook by Fitch, BBB+ with a stable outlook by S&P and A with a positive outlook by Dagong.

The Issuer's ability to maintain its current rating is dependent on a number of factors, some of which may be beyond its control, such as credit ratings and soundness of policies of its Member States. Particularly in the event that the Issuer's credit rating is lowered by Fitch, Moody's and/or S&P and falls into the sub-investment grade range or such rating is withdrawn, the Issuer's ability to access credit and bond markets and other forms of financing (or refinancing) could be limited. This could have an adverse effect on its business, results of operations and financial condition, as well as the trading price of the Bonds.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

A malfunction, disruption or insufficient maintenance of the Group's IT systems may have material negative consequences for the Group

In the process of building and managing the IT infrastructure, the Group is guided by international practices and standards (i.e., *ITIL 3.0, ISO/IEC 27001:2005, ISO/IEC 27002:2005, ISO/IEC 27005:2011*). Several measures aiming to reduce the operational risks associated with (i) the "human factor" (i.e., enforcement of internal normative documents, organizational measures and automated control tools and change management), (ii) the failure of equipment (i.e., clustering of critical systems, including communication channels, complete back up of all data and settings to a remote server site in Bratislava and entering contracts with extended warranty and technical support from the manufacturers) and (iii) occurrence of incidents of information security breaches (for example, organizational and technical access control mechanisms using 2-step authentication and the use of specialized information leakage monitoring - DLP (Data Loss Prevention System), are in place.

However, the Group may be exposed to IT risks in connection with the development, implementation and application of its IT systems. In addition, there is a risk that there might be unauthorised access to the Group's sensitive data by third parties and improper use of such data, which may lead to the loss of company secrets and may result in a breach of applicable data protection regulations. As a result, any malfunction, breach or unauthorised use of the Group's IT systems may have a material adverse effect on the Group's business, financial condition, prospects or results of operations.

The Issuer is reliant upon skilled managers and personnel and may not be able to recruit and retain qualified personnel

Since the Issuer's relaunch in late 2012, there has been a significant renewal of the Issuer's personnel. Currently the Issuer's staff consists of highly qualified specialists, professionals in their respective field. In hiring process the Issuer uses modern recruitment methods and instruments, which helps to identify the best of the best during an open international competition.

Nowadays the Issuer's international team consists of representatives of such countries as the Republic of Bulgaria, Hungary, Mongolia, Romania, the Slovak Republic, the Russian Federation, the United Kingdom and the Republic of Belarus. At the same time, proportion of international personnel on the management level reaches 29%, and in the Management Board - 60%.

The loss of any of these key individuals could to some extent impede our financial plans, product development, network expansion, marketing and other plans. The Issuer's future results will depend, in a significant part, upon the continued contributions of its existing management and its ability to expand the personnel team by adding highly skilled new members, which can be somehow simplified by opening of a European unit in Budapest in 2019. If any of the Issuer's management members or other key individuals ceases their employment or engagement, the Issuer's business, prospects, results of operation and financial condition could be materially affected.

In autumn 2017 the Chairman of the Board was unanimously re-elected for a new 5 year mandate.

The legal infrastructure and the law enforcement systems in the Member States are less developed compared to Western Europe

The legal infrastructure and the law enforcement systems in Romania, the Russian Federation, Mongolia, Bulgaria, Vietnam and other Member States are less developed when compared to western European countries. In some circumstances, it may not be possible to obtain legal remedies to enforce contractual or other rights in a timely manner or at all. Although institutions and legal and regulatory systems characteristic of parliamentary democracies are developed or have begun to develop in the Member States, the lack of an institutional history remains a problem. As a result, shifts in government policies and regulations tend to be less predictable than in countries with more developed democracies. A lack of legal certainty or the inability to obtain effective legal remedies *vis-a-vis* its borrowers or other counterparties in each Member State in a timely manner or at all may have a material adverse effect on the Group's business, results of operations or financial condition.

In addition, in Romania, the courts of which shall have jurisdiction over the disputes in connection with the Bonds, there may be fewer judges specialised and experienced in complex matters involving investments in securities when compared to judges in western European countries. The risk may be more significant in cases which needs to be brought before courts of certain other Member States, *e.g.* in connection with enforcement proceedings in the local jurisdiction of a Member State. Investors should therefore be aware that matters brought before the Romanian courts or the courts of other Member States may be subject to delays and may not be conducted in a manner similar to more developed legal systems and may, as a result, lead to delays in proceedings or losses on the Bonds.

The enforcement of judgments against the Issuer and its assets is subject to limitations and procedural rules

The Bonds are governed by the Romanian law and any disputes arising out of or in connection with this Offering Circular are subject to jurisdiction of the Romanian courts. Romania is a member state of the EU and judgments rendered by Romanian courts are generally enforceable in other member states of the EU. Claims brought by investors in a different EU Member State will be subject, *inter alia*, to the European Union conflict of laws rules included in the Regulation (EU) No 1215/2012 of the European Parliament and of the Council of 12 December 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters and shall be enforceable in accordance with it.

Assets of the Issuer are, however, located in several of its Member States, mainly the Russian Federation and other non-EU Member States. Presence of the financial and other assets outside of the EU may limit an investor's legal recourse against the Issuer. Enforcement of Romanian and other EU Member States' civil judgments in the territory of non-EU Member States may be subject to existence of relevant international treaties and international law and, mainly, their respective observance by the relevant state authorities and local procedural rules.

In addition, although the Issuer has waived its immunity against legal proceedings in the terms and conditions of the Bonds, any legal actions against the Issuer may be limited by the relevant international treaties on diplomatic and intergovernmental protection as well as principles of public international law. Several of the Issuer's assets, such as its headquarters which enjoys diplomatic privileges of an embassy may therefore be considered outside of the reach of civil courts' jurisdiction.

Furthermore, Romanian courts are not familiar with the concept of insolvency of institutions of public international law, and consequently the procedure for, and enforcement of payment under, the Bonds in such circumstances is uncertain.

Risk factors related to the Bonds and market in general

The Bonds may not be a suitable investment for all investors

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, particularly where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

There may not be an active trading market for the Bonds

The Bonds are new securities which may not be widely distributed and for which there may not be an active trading market. If the Bonds are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although application was made for the Bonds to be admitted to trading on the regulated spot market of the Bucharest Stock Exchange, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development, maintenance or liquidity of any trading market for the Bonds. Illiquidity may have a severely adverse effect on the market value of Bonds.

As a result of the above factors, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

Inability to admit the Bonds to trading on the Bucharest Stock Exchange

The admission of the Bonds to trading on the Regulated Spot Market of the Bucharest Stock Exchange requires the approval of the Bucharest Stock Exchange for such purpose. Admission of the Bonds to trading on the Regulated Spot Market of the Bucharest Stock Exchange is subject to certain requirements. The Issuer intends to take all necessary steps to ensure that the Notes are admitted to trading on the Regulated Spot Market of the Bucharest Stock Exchange as soon as possible after the closing of the Offering. There is no guarantee that, should the admission conditions for the approval by the Bucharest Stock Exchange change, all such trading conditions will be met. Consequently there is no assurance that the Bonds will be admitted to trading on the Regulated Spot Market of the Bucharest Stock Exchange on the estimated date or at all.

The Bonds do not limit incurrence of additional indebtedness

The Terms and Conditions of the Bonds do not restrict the ability of the Issuer to incur additional indebtedness or require the Issuer to maintain financial ratios or specified levels of net worth or liquidity. In fact, the Issuer intends to raise funds and thus incur addition indebtedness including by way of issuing other debt instruments. If the Issuer incurs additional indebtedness in the future, these higher levels of indebtedness may adversely affect the Issuer's creditworthiness generally and its ability to pay principal of and interest on the Bonds.

Taxation

Potential investors should be aware that they may be required to pay taxes or other documentary charges or duties in accordance with the laws and practices of the country where the Bonds are transferred or other jurisdictions. In some jurisdictions, no official statements of the tax authorities or court decisions may be available for innovative financial instruments such as the Bonds.

Potential investors are advised not to rely upon the tax summary contained in this Offering Circular but to ask their own tax adviser's for an advice on their individual taxation with respect to the acquisition, holding, sale and redemption of the Bonds. Only these advisors are in a position to duly consider the specific situation of the potential investor. The aforementioned individual tax treatment of the Bonds with regard to any potential investor may have an adverse impact on the return which any such potential investor may receive under the Bonds.

Change of law

The Terms and Conditions of the Bonds are governed by the laws of Romania in effect as at the date of issue of the Bonds. No assurance can be given as to the impact of any possible judicial decision or change to the laws of Romania, or administrative practice after the date of this Offering Circular.

Exchange rate risks and exchange

The Issuer will pay principal and interest on the RON Bonds in RON and/or on the EUR Bonds in EUR. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in other currency. These include the risk that exchange rates may change significantly (including changes due to devaluation of RON (in the case of RON Bonds) or revaluation of the investor's currency) and the risk that authorities with jurisdiction over the investor's currency may impose or modify exchange controls. An appreciation in the value of the investor's currency relative to the currency in which Bonds are denominated would decrease (i) the investor's currency-equivalent yield on the Bonds, (ii) the investor's currency-equivalent value of the principal payable on the Bonds and (iii) the investor's currency-equivalent market value of the Bonds.

Government and monetary authorities may impose exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Currently there are no exchange control restrictions in place in Romania. However, it may be mentioned in the context of bonds with a maturity of less than one year that, if significant short term foreign currency inflows were to exercise sufficient pressure on the foreign exchange market and significantly affect the central bank's monetary and foreign exchange policies, with resulting impact on internal liquidity and material deterioration of the payments balance, under the Regulation of the National Bank of Romania ("**NBR**") no. 4/2005 on foreign exchange operations, the NBR may activate certain safeguard measures. These safeguard measures may consist of: obliging residents and non- residents to notify the NBR of their intention to enter into short-term capital foreign exchange transactions; setting thresholds and other limitations for short-term capital foreign exchange transactions which generate capital inflows and outflows by residents and non-residents; temporarily withholding, in an account domiciled with the NBR, certain incoming/outgoing amounts denominated in RON or foreign currency resulting from short-term capital foreign exchange transactions and which generate capital inflows and outflows by residents and non-residents; applying a fee on transactions made on the foreign exchange market; increasing minimum reserve requirements for amounts representing short-term capital inflows, held by residents or non-residents with credit institutions; setting maturity restrictions for certain short-term capital foreign exchange transactions; restricting the introduction of new short-term capital foreign exchange transactions; and introducing additional monitoring measures concerning capital foreign exchange transactions and/or currency control measures. Nevertheless, by virtue of NBR Regulation no. 4/2005, the enforcement of such measures cannot extend beyond a period of six months and should be notified to the EC (and stopped, if so requested by the EC). They must also apply without discrimination and may not be directed solely against a particular transaction or entity.

Risks related to fixed rate or floating interest rate Bonds

The EUR Bonds will bear a fixed interest rate and the RON Bonds will bear a floating interest rate. Investment in fixed rate Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the fixed or floating rate Bonds.

In particular, securities with floating or variable interest rates can be less sensitive to interest rate changes than securities with fixed interest rates, but may decline in value if their coupon rates do not reset as high, or as quickly, as comparable market interest rates, and generally carry lower yields than fixed notes of the same maturity. Although floating rate notes are less sensitive to interest rate risk than fixed rate securities, they are subject to credit risk and default risk, which could impair their value.

The interest rate for a floating rate note resets or adjusts periodically by reference to a benchmark interest rate. Benchmark interest rates may not accurately track market interest rates.

Credit ratings may not reflect all risks

As of the date of this Offering Circular, the Issuer is rated A3 with stable outlook by Moody's, BBB with positive outlook by Fitch, BBB+ with a stable outlook by S&P and A with positive outlook by Dagong. The Issuer may apply for the assignation of a credit rating by one or more independent credit rating agencies. These credit rating agencies may assign other credit ratings to the Issuer or to the Bonds. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors which may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Transferability of the Bonds may be limited under applicable securities laws

The Bonds have not been and will not be registered under the Securities Act or the securities laws of any state of the United States or any other jurisdiction (other than Romania). The Bonds may be subject to restrictions on transfer in certain jurisdictions. Each purchaser of Bonds will be deemed, by its acceptance of such Bonds, to have made certain representations and agreements intended by the Issuer to restrict transfers of Bonds as described under "*Subscription and sale*". It is the obligation of each purchaser of Bonds to ensure that its offers and sales of Bonds comply with all applicable securities laws.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Bonds are legal investments for it, (ii) Bonds can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Bonds. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

Reliance on Bucharest Stock Exchange, Central Depository and ICSDs procedures

A holder of a Bond must rely on the procedures of the Bucharest Stock Exchange and the relevant clearing system to effect transfers of Bonds and receive payments under the Bonds. In particular, investors are advised that the Central Depository procedures allowing for the settlement of bonds with a tap issue feature, as the Bonds, and in particular, EUR Bonds are new and limitedly or not yet tested.

The Issuer has no responsibility or liability for the implementation or defaults in the implementation of own procedures by the Bucharest Stock Exchange, the Central Depository and/or any ICSD.

Automatic exchange of information in the field of taxation

Automatic exchange of information regime was implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation, as amended by Council Directive 2014/107/EU, pursuant to which Member States are required to apply various measures on mandatory automatic exchange of information from 1 January 2016, except for Austria that was allowed to start applying these measures up to one year later, starting 1 January 2017. The foregoing Directives extended the previously existing automatic exchange of information on residents of EU Member States to a full range of income (interest, dividends, and other income as well as account balances and sales proceeds from financial assets) as well as information on qualifying Account Holders in accordance with the Global Standard released by the OECD Council in July 2014 and ensured a coherent, consistent and comprehensive Union-wide approach to the automatic exchange of financial account information in the Internal Market. On 25 June 2018, Directive 2018/822 amending Directive 2011/16/EU with respect to mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements entered into force. Directive 2018/822 brings extensive reporting obligations for both intermediaries and taxpayers for cross-border arrangements that contains at least one of the hallmarks listed (namely characteristics or features of a cross-border arrangement that presents an indication of a potential risk of tax avoidance). Each Member State shall take the necessary measures to require intermediaries and relevant taxpayers to file information on reportable cross-border arrangements the first step of which was implemented between the date of entry into force and the date of application of Directive 2018/822 (1 July 2020). Intermediaries and relevant taxpayers, as appropriate, shall file information on those reportable cross-border arrangements by 31 August 2020.

Investors who are in any doubt as to their position should consult their professional advisers.

USE OF PROCEEDS

The net proceeds of the Bonds issue shall be used by the Issuer to finance its existing loan portfolio and new lending to its EU Member States and for debt refinancing (see "*Description of the Issuer – Mission*" and "*Description of the Issuer – Strategy*").

DESCRIPTION OF THE ISSUER

INTRODUCTION AND HISTORY

The Issuer is a multilateral financial institution (a public international body within the meaning of Directive 2003/71/EC, as subsequently amended (the "**Prospectus Directive**")), operating on the basis of the intergovernmental Agreement on the Establishment of the International Investment Bank of 10 July 1970 and the Statutes of the International Investment Bank forming an integral part of the Establishment Agreement. The Statutory Documents came into force provisionally on 1 January 1971, when the Issuer commenced operations, and definitively on 5 February 1971, and were registered with the Secretariat of the United Nations on 1 December 1971 under number 11417.

In May 2014 the Member States adopted the Protocol amending the Agreement Establishing the International Investment Bank and its Charter, which after ratification by all Member States entered into force on 18 August 2018.

The Issuer currently has nine Member States, namely: Czech Republic, Hungary, Mongolia, Republic of Bulgaria, Republic of Cuba, Romania, Russian Federation, Slovak Republic and Socialist Republic of Vietnam. Membership in the Issuer is open to other states, as well as to international financial organisations.

Due to objective reasons, starting from 1991, the Issuer temporarily reduced its activity. As of 2012, the Issuer has undergone a complex reformation and major modernization process, re-launching its activity under a new management structure and on the basis of renewed development strategy and lending policy. The Issuer has reviewed and reinforced its development strategy, aiming at doubling its assets and loan portfolio within a five-year horizon, while transforming into an advanced, rapidly expanding and financially sustainable multilateral development bank, as well as a recognised player on markets in target geographical areas with a significant role to play for its shareholders and key partners (see "*Strategy*").

Following the entry into force of the Protocol, the Issuer's authorized capital is of EUR 2 billion. As at 12 July 2018, after Romania has increased its share to 7.040%, the Issuer's paid-in capital amounted to EUR 318.96 million whereas the combined share of the Czech Republic, Slovakia, Hungary, Romania and Bulgaria – the Issuer's member countries within the European Union – to the Issuer's capital reached 49.07%. As at the same reference date, Cuba's share in the Issuer's paid-in capital is at 1.68% and the share of Asian members of the Issuer (Vietnam and Mongolia) is at 2.21%. Russia's share in the Issuer's paid-in capital is 47.04%.

The Issuer's headquarters is located at 7 Mashi Poryvaevoy str., Moscow, 107078, Russian Federation. Being an international organization acting on the basis of the international treaty, the Issuer is exempt from the sector specific sanctions against certain state-owned Russian financial and credit institutions, imposed by the Council Regulation (EU) No 833/2014 of 31 July 2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine. As per paragraph 5 of the Regulation's preamble, Russian-based institutions with international status established by intergovernmental agreements with Russia as one of the members, such as the Issuer, are not subject to the sanctions thereunder.

The Issuer's general telephone number is +7 (495) 604-73-00. For investors inquiries, please use +7 (495) 604-76-00 and/or ir@iibbank.com.

THE NEW STATUTORY DOCUMENTS

The Issuer is finalizing a large-scale institutional reform through the adoption of the Protocol amending the Agreement Establishing the International Investment Bank and its Charter. As of 25 June 2018, all Issuer's Member States have completed the ratification of the Protocol and therefore it entered into force on 18 August 2018.

Based on the experience of international financial institutions through the ratification of the Protocol, the Issuer moves from the two-tier (i.e., Council and Board) to a three-tier governance system (i.e., Board of Governors, Board of Directors and Management Board). Three-tier governance structure provides transparency and clear delegation of authority with well-defined roles and responsibilities. The Protocol also implies the transition from the "one country – one vote" to a double majority voting system. According to the new voting system voting powers to Member States in the Board of Governors and the Board of Directors are granted pro rata to their share in the Issuer's paid-in capital. Save for certain strategic decisions which shall require the unanimous approval of all Member States represented at the meetings of the Board of Governors (e.g., decisions on the amendment of the Establishment

Agreement and the Statutes, changes in the capital of the Issuer and admission of new members, decision on the date and procedure for the termination of the Issuer's operations), under the Protocol, the resolutions of the Board of Governors and the Board of Directors are adopted based on a double majority rule, with the favorable vote of: (i) a qualified majority of at least three quarters of the total votes vested with the representatives of the Member States; and (ii) a simple majority of the representatives of the Issuer's Member States who actually voted on the relevant resolution. The Board of Governors and Board of Directors have the authority to adopt resolutions only if representatives of at least ¾ of the total number of the Issuer's Member States attend the corresponding meeting.

All resolutions of the Management Board are adopted by a simple majority. In the event of a tie between the votes of the Members of the Management Board, the Chairperson of the Management Board has the decisive vote.

The new Statutory Documents also imply an increase of authorized capital of the Issuer by EUR 2 billion.

The new Statutory Documents set forth, among others, the rules regarding the admission of new Member States and the withdrawal of Member States, its governance structure as well as the scope of operations which may be undertaken by the Issuer.

The new Statutory Documents specifically provide that the Issuer benefits from distinct legal personality. They also set forth several privileges and immunities of the Issuer and the Issuer's officials, and, in particular, of the representatives of the Member States in the Issuer's Board of Governors and Board of Directors, on the territories of the Member States. Such privileges and immunities, which include immunity from judicial and administrative proceedings, are aimed at enabling the Issuer and its officials to carry out their functions and attain the purposes set forth in the new Statutory Documents. Privileges and immunities granted to officials of the Issuer (including representatives of the Member States in the Issuer's Board of Governors and Board of Directors) are applicable to such persons while in official capacity and are vested therewith only to serve the interests of the Issuer. Member States, the Board of Governors, and the Chairperson of the Management Board, as the case may be, have the right in the scope of their competency, and are under the obligation, to waive the immunity of the respective representative or official if, in their opinion, such immunity obstruct justice and can be waived with no detriment to the Issuer's interests, to the extent and on the terms and conditions that it considers would satisfy the Issuer's interests.

Certain matters related to the residence of the International Investment Bank in the Russian Federation are set forth in the agreement dated 23 December 1977 concluded between the Issuer and the former USSR (the "**Host State Agreement**"). Among others, the Host State Agreement provides for the inviolability of the Issuer's premises in the USSR (and, consequently, the Russian Federation as a successor state after the USSR dissolution) and the exemption of the Issuer's operations from the supervision of central or local authorities of the Russian Federation.

MISSION

The renewed mission of the Issuer, in accordance with its 2018-2022 Strategy, is to facilitate connectivity and integration between the economies of its Member States, in order to ensure sustainable and inclusive growth and competitiveness of their national economies, backed by the existing historical ties.

The Issuer is primarily engaged in lending activities with the participation of leading national financial institutions (partly owned by Member States) and development banks, export-import banks/agencies or in partnership with other international development institutions, mainly targeting investment projects on the territories of its Member States. Complementary to its main lending activities, the Issuer invests in, and is involved in transactions with, securities and foreign currency, as an alternative method to manage surplus liquidity.

The Issuer is determined to extend its activity within Member States through diversified and in-depth cooperation with export credit agencies, national organisations for development, multilateral development banks and other international finance institutions with a high rate of credibility. A first step towards achieving this aim has been made in April 2014, when the Issuer executed a Multilateral Memorandum on Cooperation (the "**Memorandum**") with a number of export credit agencies ("**ECAs**") in Member States, including EXIAR, EXIMBANKA SR, EGAP, BAEZ and EximBank Romania. Pursuant to the Memorandum, the Issuer will act as a bridging financing institution, while the ECAs will provide insurance coverage in relation to projects carried out in cooperation by Member States. The Memorandum was subsequently joined by other ECAs. Also, in October 2016, the Issuer signed a memorandum of understanding with the European Investment Fund ("**EIF**"), which formalized the partnership between the two financial institutions in relation to the anticipated establishment of the Central Europe Fund of Funds ("**CEFoF**")

managed by the EIF. In 2017 the Fund was launched and approved its first operations. Moreover, aiming to promote its activities among leading development financial institutions, in 2017 the Issuer filed for membership in the International Development Finance Club ("**IDFC**"), an esteemed union of national and regional development institutions, whose main focus lies in areas of sustainability, including urban development, green finance, promotion of partnerships between development institutions, export finance, etc. It is currently anticipated that the Issuer will become a member of the IDFC on 14 October 2018.

SUBSIDIARY AND REGIONAL OFFICE

The Group currently consists of the Issuer and one subsidiary, JSC "IIB Capital" (the "**Subsidiary**"). The Subsidiary is established in the form of a joint stock company, being 100% owned by the Issuer. The Subsidiary's principal office is located at 107078 Moscow, Basmanny lane 7, office 14.

The Subsidiary was established in 2012, in order to take over several non-core activities of the Issuer, to enable the Issuer to focus on its core objective and to expand its lending activities and evolve into a prominent development institution in the Member States. The Subsidiary's core activity now primarily consists of managing the Issuer's complex of premises. This separation of activities between the Subsidiary and the Issuer enables a more efficient management of the Issuer's property, with minimum administrative and maintenance costs and enhanced personnel structure.

The share capital of the Subsidiary is RUB 44,5 thousand (approximately EUR 1,100 at the exchange rate effective at the date of incorporation).

On 14 April 2015, the Issuer opened its first regional representative office, based in Slovakia, with the particular aim to qualitatively increase the Issuer's activity in the EU Member States and facilitate contact with EU-based financial institutions. The Issuer's regional office has been developing contacts with local partners and potential clients, leading to a number of possible transactions. The office also hosts an additional back-up server of the Issuer and secures its business continuity. Until the end of August 2018, the Issuer's regional office identified, arranged and assisted in conclusion of credit facilities and bank guarantees agreements with the clients in Slovakia, Czech Republic, Hungary and Romania for the overall volume exceeding EUR 270 million.

At the 109th IIB Council Meeting in June 2018, the Issuer's Member States unanimously approved the establishment of the European Unit in Budapest that will implement front office as well as partially middle and back office functions. Tasks of the European Unit will include not only the identification of lending opportunities, but also initial credit analysis of projects, subsequent monitoring and execution of treasury operations, as well as borrowing tasks. In order to successfully implement this decision, on 18 June 2018, the Government of Hungary and the Issuer signed a Memorandum of Understanding that formalizes the intentions of the parties to mutually develop and sign Host Country Agreement by the end of 2018 in order to launch its activities from the beginning of 2019.

STRATEGY

Re-launch Programme and 2013-2017 Strategy. Main achievements.

The Issuer's strategic development for the five-year period immediately following its 2012 re-launch, were outlined in the 2013-2017 Development Strategy (adopted in June 2012 at the Issuer's Council 97th meeting held in Hanoi, Vietnam on 6 June 2012) and the Re-launch Programme (approved with the unanimity of the Member States' votes in November 2012, at the Issuer's Council 98th meeting held in Moscow on 28-30 November (the "**Re-launch Documents**"). During the implementation of the Re-launch Documents, the Issuer went through a modernisation process, which implied fundamental work carried out by the Issuer in order to overcome negative trends and resume activity. The Issuer managed to reach considerable success in virtually all areas of its core activity, thus laying the basis for transition to the next strategic stage of its development.

As qualitative transformations resulting from the implementation of the 2013-2017 strategy and the Re-launch Programme, the following achievements can be mentioned: (i) the assignment of ratings from leading international rating agencies; (ii) building an advanced risk management, assets/liabilities management and compliance control system; (iii) expanding the Issuer's product offering through direct funding, intermediated financing, trade financing products and bank guarantees, including target support programmes; (iv) coordination with and approval by all shareholders on the amendments made to the Statutory Documents and phasing in a three-tier corporate governance

structure; (v) building a qualitatively new governance structure based on best international practices; (vi) restoring Hungary's membership with the Issuer, and opening a European regional office in the Slovak Republic; (vii) increasing the Issuer's recognition in the reference group of development institutions and on international markets as a whole; (viii) issuing bonds in Member States, both in euro and national currencies; (ix) introducing IT systems that meet advanced requirements: a new automated banking system (ABS), a customer relationship management (CRM) system, an electronic document management (EDM) system, and automation of key business processes and (x) implementing corporate social responsibility (CSR) principles.

In terms of growth of core indicators during the implementation period of the Issuer's development strategy for 2013 - 2017, the following achievements are noteworthy:

- as of the end of 2017the Issuer's assets increased by 24% compared with 2016 and reached EUR 1,096 million, showing a three-fold growth for the Issuer's Development Strategy 2013-2017 implementation period;
- the increase in Issuer's assets value was mainly driven by the growth of the loan and documentary portfolio, which amounted to EUR 712.4 million at the end of 2017 (almost 88% higher than in 2016) and included loans and documentary products in all 9 member states, which is in line with the targets of the optimistic scenario of the Issuer's Development Strategy 2013-2017;
- the total volume of long-term funding raised as of the end of 2017 amounted to EUR 667 million (62% growth than in 2016). During the strategic period 2013–2017, the Group diversified its fundraising effort by countries, products, timeframes and investors, including placements on the markets of the Member States and the leading EU markets; and
- in line with the implementation of the resolutions adopted at the 99th meeting of the Issuer's Council (in June 2013), by the end of 2017 the paid-in authorized capital of the Issuer reached EUR 314.96 million (see "Strong Support from Member-States").

2018-2022 Strategy

The strategic vision for the Issuer's development within the next mid-term period is outlined in the 2018-2022 Strategy adopted in June 2017 at the Issuer's 107th Council meeting held in Bucharest, Romania on 26-27 June 2017. This strategy determines the global vector of the multilateral development institution's growth path not only for the next five years, but is also intended to layout the basis for a longer-term strategic guide (until end of 2032). At the end of 2017, the Issuer in close cooperation with the delegations of the Member States prepared country strategies that detail the Issuer's strategic priorities in each Member State for the 2018-2022 planning period.

The new strategic vision is aligned and consistent with the Issuer's mission and mandate and further tailored in strategic directions to support and enhance the Issuer's long-term development. By the end of 2022, the Issuer aims to:

- become an acclaimed niche lending institution capable of executing medium-sized projects to promote the development of the national economies of Member States;
- put forward a recognisable value proposition on the markets of Member States, play a prominent role in supporting financial transactions both between them and third countries, which includes funding export/import operations and investment;
- run a partnership network in each Member State on the basis of long-term mutually advantageous relationships;
- achieve long-term financial sustainability;
- demonstrate sustainable profitability through its core activity.

Key specific strategic goals under the 2018-2022 Strategy are as follows:

- **Becoming a significant development institution for the economies of the Member States,** by taking into account the specific features of each market and its various segments, including the competitive environment. At this end, the Issuer's value proposition includes (i) providing mid-term, long-term and equity financing for projects relevant for innovative development of the national economies of Member States, (ii) covering long-term risks in sectors that experience a shortage of financing from other sources due to challenging operating conditions, through a number of means, including guarantees, (iii) allocating direct financing/coverage of target risks for financial institutions in the Member States, including in the area of trade financing (iv) participating in joint financing of long-term investment projects in collaboration with national development banks and IFIs, (v) financing mid-term and long-term investment projects to be implemented both by players from Member States beyond their borders, and by foreign investors in the territory of Member States, (vi) financing export/import operations between the Issuer's Member States and also between Member States and third countries and (vii) providing advisory services and technical assistance. Target client segments include mid-sized companies with annual revenue ranging from EUR 30 to 100 million, SMEs with a turnover of up to EUR 30 million – intermediated financing via national financing institutions, large companies with revenue exceeding EUR 100 million or infrastructure projects – syndicated financing or joint financing with other players and national financial institutions, national financial institutions, including those that operate in the area of trade financing.

- **Assisting the economic integration of Member States,** by acting as a platform capable of carrying out foreign economic activities between Member States and their partners in a wide range of areas. Also, in order to raise its status in the international financial community, the Issuer intends to strengthen its operations especially by conducting in-house public events aimed at assisting the economic development of the Member States and participants with special status, by sponsoring events, initiatives and programmes, and by releasing researches and information materials.

- **Raising long-term financial sustainability,** which is intended to be achieved by developing the financial control and expanding the resource base. The development of financial control is envisaged to be obtained by way of (i) monitoring the profitability of the Issuer's operations; (ii) providing sufficient returns with a reasonable risk level; (iii) forecasting the Issuer's short-term development horizon and taking corrective decisions based on the forecast data; and (iv) regularly identifying the key factors affecting the Issuer's financial standing. The Issuer plans to accrue liabilities while observing the following principles: (i) ensuring the diversification of its loan portfolio; (ii) raising funds for longer periods while lowering the cost; (iii) expanding the financing activities through bond issues on Member States' national markets; (iv) increasing the number of partners; (v) broadening the range of fundraising tools; (vi) consolidating the Issuer's reputation as a trustworthy and transparent partner; and (vii) launching a debut Eurobond issue.

- **Having the Issuer's international credit rating upgraded to A- or higher**. The Issuer aims to be assigned at least an A- rating from an international rating agency, primarily by executing the following tasks: growth and diversification of its loan portfolio; monitoring and management of the level of troubled assets; diversification and enhancement of the quality of its treasury portfolio; control over capital adequacy, financial leverage and risk profile. At the current moment in time, the Issuer is rated A3 with stable outlook by Moody's Investors Service, Inc. ("**Moody's**"), BBB with positive outlook by Fitch Ratings CIS Ltd ("**Fitch**"), BBB+ with stable outlook by Standard & Poor's Credit Market Services Europe Limited ("**S&P**") and A with positive outlook by Dagong Global Credit Rating Co., Ltd ("**Dagong**").

- **Reaching beyond the Issuer's "historical space".** A strategic vector for the Issuer's development is to expand the Issuer's historical footprint by drawing in new participants. The principal objectives for admitting new members are (i) gaining access to new markets and clients; (ii) obtaining new financial resources and other forms of support; (iii) growth of assets and the loan portfolio; (iv) gaining professional skills and expertise; (v) improving the Issuer's credit ratings; and (vi) ensuring complementarity of new and existing members.

Main achievements of the implementation of the 2018-2022 Strategy and key objectives for the remaining period of 2018

The Issuer continues to expand its operations in accordance with its mandate and strategic objectives established in its Development Strategy 2018-2022 and Country Strategies. For the first half of 2018, a significant progress has

been made in the field of expansion of the loan and trade finance portfolio, quality improvements in treasury assets as well as diversification of borrowings in terms of type, maturity, geography and currencies, as follows:

- In the first half of 2018, the Issuer's total assets reached EUR 1.13 billion supported by the expansion of core activities. In line with the Issuer's mission, the share of development portfolio in the Issuer's total assets increased to 72.5% from 69% at end 2017. During the reporting period, the Issuer's net loan portfolio reached EUR 709.7 million vs. EUR 664.1 million at the end of 2017. In terms of geographical diversification of loan portfolio the share of European Member States increased to 51% from 43% compared to the end of 2017;
- In line with its Trade Finance Support Program (TFSP), the Issuer continued to diversify and gradually increase the volume of trade finance transactions for the benefit of all Member States. During January-August 2018, 27 trade finance deals were issued in the total amount of EUR 76.73 million;
- The share of AAA-A-rated assets in the Issuer' treasury portfolio reached a record high level of 57% compared to 43% at end 2017;
- As part of the 2013 capitalization programme, on 12 July 2018 the Government of Romania made an additional contribution to the Issuer's authorized capital in the amount of EUR 4 million. Thus, Romania became the fifth shareholder in terms of paid-in capital, increasing its share to 7.04% (EUR 22.45 million).
- On 25 June 2018, the Protocol Amending the Agreement Establishing the International Investment Bank and its Charter was ratified by the last remaining member country, the Slovak Republic. On 18th of August 2018, the Protocol entered into force.
- In June 2018, during the 109th IIB Council Meeting (Yaroslavl, Russian Federation) in the framework of a new strategic cycle the member countries unanimously supported the establishment of an IIB European Unit (Budapest) – a multifunctional front office, which also will perform middle and back office functions. On 18 June 2018, the Government of Hungary and the Issuer signed a Memorandum of Understanding, which provides legal foundation for the cooperation between the Issuer and the Government of Hungary to open the Issuer European Unit in Budapest, as well as formalizes intentions of both parties to finalize until the end of the year 2018 and sign the host-country agreement for the IIB European Unit, in order for the office to start operating in full at the beginning of 2019.
- On 12 April 2018, Standard & Poor's upgraded the Issuer long-term credit rating to BBB+ with stable outlook. On 30 April 2018, Moody's also upgraded the Issuer long-term credit rating to A3 with stable outlook. In addition, the Issuer was assigned the following investment grade ratings: BBB with positive outlook (Fitch Ratings) and A with positive outlook (Dagong Global Credit Rating).
- In April-June 2018, the Issuer successfully placed its first CZK-denominated issue of bonds at the Vienna and Prague Stock Exchanges. The private placement issue totaled CZK 750 million.
- In October 2018, the Issuer will become a full-fledged member of the International Development Finance Club (IDFC), a network of leading national and regional development banks.

Also, in close cooperation with the delegations of the Member States, the Issuer has prepared country strategies to detail its strategic priorities of activities in each Member State for the following five-year planning period.

The Issuer also plans to continue to strengthen and expand its relations with financial institutions and to develop financing products in cooperation with such partners.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

The Issuer intends to operate as a socially and environmentally responsible development institution. For this purpose, it has joined the United Nations Global Compact – the largest international initiative in the field of sustainable development, having voluntarily submitted to observe the fundamental principles of the United Nations Global Compact on human rights protection, labour relations, environment and corruption fight, in its activities.

The Issuer has been gradually incorporating such principles into its activities, including by adopting its Corporate Social Responsibility Policy and, more recently, its Environmental and Social Impact Assessment Guidelines for the investments it makes, in line with best practices across multilateral development institutions. In 2015, the Issuer started supporting environmental initiatives directly, having provided financial grants for programmes aimed at protecting and preserving rare or endangered species of animals in Mongolia and Vietnam. The commitment to environmental initiatives was reinforced in 2016, with a recent grant having been awarded by the Issuer to WWF Hungary for assessing and mapping water resource risks.

At the end of April 2016, the Issuer set up the SR-IIB Technical Assistance Fund (TAF), with a 1-million EUR contribution by Ministry of Finance of the Slovak Republic. The fund, operating under the Issuer's management, will be used to finance advisory services supporting the Issuer's investment activities in developing countries among its Member States (by OECD classification – Vietnam, Mongolia and Cuba) or supporting these countries' own activities in relation to reforms and modernisation.. The Issuer uses its internal procurement rules and processes to select and subsequently contract consultants.

In order to increase the pool of available resources, the Issuer co-finances 20 percent of the assignments under the TAF up to the cumulative amount of EUR 245,000, after which further projects will be financed solely from the TAF. The Issuer also actively manages temporarily unallocated resources of the TAF in order to grow the fund balance. The resources of the TAF can be used to contract exclusively Slovak-based consultants (or Slovak subsidiaries of transnational consultancies as the case may be), although up to 25 percent of the budget approved for individual projects can be used by the contracted consultant to subcontract partners from the Issuer's other Member States.

As of September 3, 2018, the fund has successfully completed a project aimed at assisting the Financial Regulatory Commission of Mongolia (Mongolia's financial market supervisory body) in bringing its AML/CFT regulations in line with the Financial Action Task Force (FATF) recommendations and global best practices. Other projects currently in preparation include assistance with the preparation of a project creating a joint Cuban and Slovak enterprise for the manufacture of confectionery in Cuba, project preparation of a large energy-efficiency street lighting PPP project in Hanoi, Vietnam and scientific testing of Slovak innovative agricultural technology in Vietnam and installation of biomass power plants in the Thừa Thiên-Huế province, Vietnam..

In 2017, as part of its environmental support practice, the Issuer provided a EUR 30,000 grant to supporting the project of Milvus Group Association "Environmental education and awareness raising in protected areas" in central Transylvania, Romania. The project is aimed at raising awareness of local population towards natural values and the environment, and, in particular, towards Romanian territories protected as EU Natura 2000 sites. Among others, the programme facilitates 200 hours of environmental education activities in the elementary schools in Transylvania, over a period of 10 months.

Also, in 2018, as part of the Trade Finance Support Programme (TFSP), the Issuer has been actively supporting the delivery of hydroturbine equipment for small hydropower plants from Bulgaria and Czech Republic to Armenia. Thus, the Issuer supported the finance of such exports for the amount of EUR 5.76 million.

In June 2018, as part of extending its environmental responsibility practice and contributing to the implementation of sustainable development principles in Member States, the Issuer provided a EUR 40,000 grant for execution of a project on restoring peatlands in Russia. This important protection initiative is being implemented by Wetlands International, an international non-governmental organisation.

The Issuer is also acting as an integrator of pharmaceutical industry's development in Russia and Hungary. Thus, the Issuer signed an agreement for the issuance of counter-guarantees for up to RUB 1.5 billion for a key medicine distributor, one of Russia's market leaders in the sector – Pharmaceutical Company PULSE LLC.

The Issuer is also working on the introduction of the "green office" standards in its activities in accordance with the principles of responsible and sustainable development. This objective is part of the 2018-2022 Strategy and is also part of the Issuer's initiative of responsible attitude towards the environment, which was approved in 2016. The Issuer managed to optimize its printing expenses, as well as implement specific measures to support efficient use of paper, electricity and water in its activity.

KEY BUSINESS STRENGTHS

The Issuer believes that its potential for future growth of its business are primarily due to the following strengths:

Status, privileges and immunities

The Issuer is a supranational intergovernmental organisation, benefitting of immunity from the application of all taxes or fees (with the exception of specific service fees), whether national or local, as well as from the application of customs duties and restrictions on the import and export of articles destined for official use, in the Member States. In particular, no tax is levied by Member States on the profits received from the Issuer's banking activities. In

accordance with the new Statutory Documents which came into force on 18 August 2018 the Issuer shall (i) be immune from any and all taxes or fees, whether national or local, except for specific service fees; (ii) be free from any obligations to pay, withhold, or collect any taxes; (iii) be immune from any customs duties or taxes or fees or any import or export restrictions in relation to goods intended for official use; and (iv) enjoy all benefits with regard to priority ranking, tariffs and rates of postal, telegraphic, and telephone communications offered to other international organisations and diplomatic missions in the corresponding state.

Furthermore, according to the new Statutory Documents, the Issuer itself, the representatives of the Member States in the Board of Governors and the Board of Directors, and the officers and employees of the Issuer enjoy the privileges and immunities necessary to perform the functions and achieve the aims set forth in the new Statutory Documents on the territories of the Member States.

As it is generally the case with supranational financial organizations acting on the basis of international treaties, the Issuer is not subject to local regulation by the Central Banks of the Member States, while also being exempt from the general legal treatment applicable to other legal entities operating within the same business as the Issuer on the territory of the Member States. In particular, the Issuer is not subject to regulatory requirements under the Member States' legislation, including with respect to licensing, capital adequacy and information disclosure requirements.

Based on the new Statutory Documents, the Issuer also enjoys privileges which are similar to those granted to diplomatic representations in the Member States with respect to priorities, tariffs and rates applicable to postal, telegraphic, and telephone communication.

The Issuer is not subject to the specific sectoral sanctions against certain state-owned Russian financial and credit institutions, imposed by the Council Regulation (EU) No 833/2014 of 31 July 2014. Based on a special reservation in the fifth recital of the Council Regulation (EU) No 833/2014 of 31 July 2014, Russian-based institutions with international status established by intergovernmental agreements with Russia as one of the members (such as the Issuer) are not subject to the sanctions set forth thereunder.[1]

Strong capital base

Following the entry into force of the Protocol, the authorised capital of the Issuer is of EUR 2 billion, out of which EUR 318.9 million represent the paid-in capital of the Issuer (following the contribution by Romania of 12 July 2018). This increase of the Issuer's authorized capital from EUR 1.3 billion to 2 billion is intended to provide room for potential contributions by new members of the Issuer or for increasing quotas of current Member States in authorized capital.

As at August 2018, out of the unpaid amount of EUR 1681.038 million, EUR 805.5384 million represent callable capital divided between the Member States and payable by the Member States on call, in the unlikely case that the Issuer fails to meet its obligations, and EUR 875.5 million represent unsubscribed quota, namely the amount which is open for contribution by the actual or new members of the Issuer.

The total equity of the Issuer (including retained profits and other equity funds) amounted to EUR 395.7 million as of 31 December 2017 and to EUR 371.6 million as of August 2018 (following the contribution by Romania on 12 July 2018).

The key objectives of the Issuer for the next five years also include the engagement in equity investments, as well as broadening the range of fundraising tools (see "*Strategy - 2018-2022 Strategy*").

Strong support from Member States

Reinforcing strong commitment to the Issuer's strategic goals, Mongolia, on December 27, 2017 made a contribution of more than EUR 1.9 million, which significantly increased its share in the Issuer's paid-in capital (from 0.47% to 1.08%).

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[1] Recital 5 of the Council Regulation (EU) No 833/2014 of 31 July 2014 reads: *In this context, it is appropriate to prohibit transactions in or the provision of financing or investment services or dealing in new bonds or equity or similar financial instruments with a maturity exceeding 90 days issued by state-owned Russian financial institutions,* ***excluding Russia-based institutions with international status*** *established by intergovernmental agreements with Russia as one of the shareholders.*

As part of the Capitalisation Programme 2013, on 12 July 2018 Romania made an additional contribution to the Issuer's authorized capital in the amount of EUR 4 million (out of EUR 7.6 million planned). As a result, Romania's share in the Issuer's paid-in capital increased to EUR 22.45 million that has made it the fifth largest shareholder of the Issuer. Czech Republic is in the process of internal approval of the contribution under the Capitalization Programme 2013 (EUR 12.6 million).

In June 2017 the Council approved the Issuer`s Development Strategy for 2018–2022 that provides for the second round of capitalisation. Thus, at the 109th IIB Council Meeting in June 2018, the Member States of the Issuer approved the main approaches to elaborating the new IIB Capitalisation Programme 2018–2022.

The Member States have also expressly stated their high level of support for the Issuer's activity through comfort letters issued during the process of obtaining the first Issuer's investment grade rating. By these comfort letters – although not assuming under legally enforceable guarantees – the Member States declared their support with respect to the goals and objectives of the Issuer, primarily consisting of the promotion of the development of economies of Member States, the cooperation among them, and the facilitation of their deeper integration into the world economy. Several heads of delegations of the Member States in the Issuer's Council have also confirmed the support of the Member States which they represented, during their meetings with the rating agencies.

During the past approx. 20 years, Member States have not required any distribution of dividends. Based on a decision of the Issuer's Council, undistributed dividends for a period of more than 20 years were kept as retained earnings. Moreover, as a sign of unanimous recognition of the Issuer's mission and support of its re-launch efforts, at the Issuer's 99th Council meeting of June 2013, held in Bratislava, the Member States decided to transfer a significant portion of the Issuer's retained earnings in the amount of approx. EUR 76 million into the paid-in capital of the Issuer, thus strengthening the capital position of the Issuer. The above amount increased the nominal value of the participation of the Member States *pro rata* to their respective shares in the paid-in capital of the Issuer as at the date of such decision. The Member States undertake to facilitate the Issuer's access to national capital markets and other sources of funding. Such access may require the adoption of relevant laws or regulations in certain jurisdictions, inclusion of the Issuer in the appropriate lists of multilateral financial institutions that are allowed to make placements on the relevant Member States' market, as well as in the lists of multilateral financial institutions in which pension and other funds and private investors are allowed to invest.

The Issuer implemented bond placements in various currencies (EUR, CZK, RON, RUB) contributing to the development of its Member States' capital market. The success of these placements was due to the strong support provided by the respective Member State. As recognition on the part of experts of Romania's debt market, at the summing up of 2015 results, the Issuer was awarded for its contribution to the development of the Romanian corporate bond market by the Association of Romanian Business Brokers.

The Issuer registered two Bond Programs on Russian market, one with the Central Bank of Russian federation (classical one) and one with the Moscow Stock Exchange (exchange traded bonds). During 2014-2018, the Issuer successfully placed five bond issues on Russian market in the total amount of RUB 24 billion. All ruble issues are included in the Lombard list of the Central Bank of Russian Federation. Due the changes in legislation, the Issuer was added to the list of international financial institutions whose securities can be invested into with pension savings of the state management companies, with the payment reserve resources of the state management companies, and with temporary surplus funds of state corporations and state companies as well as, private pension funds. Other Member States who have also acted towards the facilitation of the Issuer's access to their national capital markets include the Slovak Republic, in which the Issuer has already successfully closed its debut issue of EUR 30,000,000 bonds in October 2014, the Czech Republic, in which the Issuer had successfully placed CZK 750 million in April 2018, listed on both Vienna and Prague Stock Exchanges, and Romania, in which the Issuer placed RON 711 million and EUR 60 million.

During 2017-2018, the Issuer continued to strengthen its relationships with its Member States and their institutions, including by attending various meetings of inter-governmental commissions, delivering presentations to investors and companies in the Member States, with support from state administrative authorities of the Member States, and hosting a series of events and liaison groups among institutions of the Member States and other countries. The Issuer has also signed and is implementing Memorandum on Cooperation with ministries of foreign affairs and/or economy of Hungary, the Slovak Republic, Mongolia and the Russian Federation. In order to enhance the contacts with its shareholders, the Issuer has also set-up a new platform of cooperation between Member States' representatives,

namely the Club of International Investment Bank Ambassadors, under which Ambassadors of the Issuer's Member States meet regularly to discuss issues of interest on the Issuer's agenda.

A Multilateral Memorandum on Cooperation among the Issuer and Chambers of Commerce and Industry of its Member States was signed on 27 June 2017, during the Issuer's Council 107th meeting held in Bucharest, Romania. A number of cooperation agreements with various developments institutions has also been signed and will be signed until the end of 2018 (New Development Bank. Trade and Development Bank, Central American Bank for Economic Integration, International Bank for Economic Cooperation, etc.)

The Bank is in constant contact with the top public officials of Member States, including Deputy Prime-ministers, Ministers of Finance/Economy/Foreign Affairs, and Presidents of Central Banks in order to discuss the main strategic issues of the Bank's development.

Not only does the Issuer promote its activities through participation in various international events, in certain cases the Issuer takes lead and organises gatherings of development institutions aimed at exchanging views and experiences of partner banks on topics of high importance. A vivid example of such an initiative is an international conference "IFRS 9 Implementation in Development Banks: challenges, risks and opportunities" that was held in Moscow in September 2017 and united senior level professionals in accounting, risk management and other fields from more than 14 institutions.

Due to the strong support of the Issuer's development goals by the Hungarian authorities the establishment of European Unit in Budapest was approved by the Council in June 2018.

Robust capital adequacy and potential for attraction of funding

The Issuer's capital adequacy ratio established by the Council stands high at minimum 25%, 21 percentage points above the Basel II 4% requirement applicable to tier I capital and 17 percentage points above the Basel II 8% requirement applicable when accounting tier II capital also. As of 30 June 2018, the Issuer's capital adequacy ratio, calculated in accordance with the Basel II methodology stood at 32.34% (for tier I capital) and 33.19% (for total capital *i.e.*, including tier II capital).

As of 30 June 2018, the Issuer attracted short-term funds from financial institutions in the form of deposits amounting to EUR 59.8 million representing 7.8% of the Issuer's total liabilities as of the same date.

During the past four years, the Issuer has successfully completed a 30 million issue of EUR-denominated bonds on the Slovak market and five issues of RUB-denominated bonds in the aggregate amount of RUB 24 billion on the Russian market under two bond issuance programmes, one established in 2014 and the second in 2016. As of 30 June 2018, the outstanding debt for RUB-denominated bonds amounted to approx. EUR 306.9 million. In October 2015, the Issuer placed RON 111 million (approx. EUR 25 million) of 3-year maturity bonds on the Bucharest Stock Exchange. The issue was the largest concluded in Romania by any international financial institution in the past six years, including the most recent issues by the EBRD, the EIB and the BSTDB of RON 100 million, RON 88 million and RON 22 million respectively. In September 2016, the Issuer placed another RON 300 million (more than EUR 65 million) of 3-year maturity bonds on the Bucharest Stock Exchange, which became one of the largest among IFIs on the Romanian market in the past 10 years (second largest to the placement by the European Investment Bank in 2007). In addition, in September 2017, the Issuer placed two tranches of bonds, as follows: a RON 300,000,000 tranche and a EUR 60,000,000 tranche (the first EUR bonds issued on the Romanian market). In April 2018, the Issuer had also placed its first CZK denominated bond in total amount of CZK 750 million listed on both Vienna and Prague Stock Exchanges. Other Member States have expressed their openness for potential issues of bonds by the Issuer on their domestic capital markets.

From mid-2014 and until the date of this Offering Circular, the Issuer had also concluded more than 100 different agreements, including bilateral loan agreements, ISDA Master Agreements, long-term REPO, GMRA and trade finance agreements with financial institutions such as Bulgarian Development Bank, Credit Suisse International, Eximbanka SR, Eximbank Hungary, OTP Bank, JP Morgan Securities, Raiffeisen Bank International, Tatra Banka, VTB Capital London, VTB Europe, Česká exportní banka, Industrial and Commercial Bank of China, Eurasian Development Bank, ING Bank, Rosbank, Banca Transilvania, Sberbank Europe, Sberbank CZ, Erste Group Bank, Unicredit Russia, International Bank for Economic Cooperation etc., and more than 30 such agreements are

currently pending negotiation between the Issuer and other current or potential financial partners, including New Development Bank, Goldman Saches KBC, Bank NVNatixis and ICBC Standard Bank.

Solid investment grade ratings from rating agencies

At the beginning of 2016, the Issuer had a Baa1 rating with a stable outlook from Moody's, a BBB- with a stable outlook rating from Fitch, and an A rating with a stable outlook from Dagong.

In June 2016, S&P assigned the Issuer a BBB rating with a stable outlook on the basis of the Issuer's strong capitalization.

In December 2016, Fitch upgraded the Issuer to BBB with a stable outlook, citing the continuing diversification of the Issuer's operations in Central and Eastern Europe, the strengthening of risk management policies and the reduction of risks related to business environment.

In May 2017, Moody's changed the rating outlook on the Issuer to positive from stable and affirmed the Issuer's Baa1 rating. According to Moody's, such change was due to the following main drivers: (i) the increased diversification of the Issuer's loan portfolio and the maintenance of relatively strong asset quality; (ii) the improved credit quality of the Issuer's treasury portfolio; and (iii) the increased diversification of the Issuer's funding sources.

In December 2017, Fitch changed the rating outlook on the Issuer to positive from stable and affirmed the Issuer's BBB rating citing the continuing diversification of the Issuer's operations in central and eastern Europe (CEE), the further strengthening of the Issuer's risk management policies and the improvement of the Issuer's business environment.

In February 2018, Dagong changed the rating outlook on the Issuer to positive from stable and affirmed the Issuer's A rating due to the economic recovery in Member States, the favourable credit environment leading to lowered funding costs of the Issuer, and the increased diversification of the Issuer's funding sources.

In April 2018, S&P upgraded the Issuer to BBB+ with a stable outlook after raising the assessment of the Issuer's financial profile to 'very strong'. S&P stated that the Issuer 'has demonstrated low credit costs and low levels of nonperforming loans since its relaunch in 2012 and has meaningfully increased the quality of its liquid assets.'

In April 2018, Moody's upgraded the Issuer to A3 with a stable outlook stating According to Moody's, the main drivers for the rating upgrade are the Issuer's improvement in asset quality, more robust risk management systems, an increasingly diversified loan book and funding strategy and the strengthened credit quality of its treasury portfolio. Moody's believes that the Issuer's new medium-term strategy will likely maintain these improved credit features.

As such at the end of the first half of 2018, the Issuer has been rated A3 with stable outlook by Moody's, BBB with positive outlook by Fitch, BBB+ with stable outlook by S&P and A with positive outlook by Dagong.

Conservative risk management policy

The Issuer's risk management policy is based on conservative assessments aimed at preventing the adverse impact of risks on the results of the Issuer. As a principle, the Issuer does not enter into potential transactions with high or undeterminable risk level, irrespective of the potential profitability of the deal.

The Issuer upgraded its risk management objectives within the 2018-2022 Strategy. The key principles of the Issuer's renewed risk management strategy are as follows:

In accordance with the new 2018-2022 Strategy, the Issuer's priority objectives of evolving the risk management include:

- implementing an economic capital system according to Basel III recommendations in order to determine the amount of equity needed to cover unforeseen losses;
- developing more advanced risk-sensitive methodology of capital calculation;

- creating and developing a process for identifying early warning signals of potential problems in order to establish a second line of defence prior to credit risk deterioration;
- implementing indicators of borrowers' corporate governance quality in order to assess additional project risks; and
- integrating automated risk management systems into the Issuer's IT architecture.

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

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

To enhance effectiveness of non-performing loans management, the Issuer have strengthened the way it deals with NPLs, through creation of a dedicated unit in charge with monitoring and managing such loans.

The whole ecosystem of the Issuer's risk management is intended to evolve in accordance with best industry practices and global trends.

BUSINESS

The following three operating segments of the Group's activity are identified, based on the analysis of the Group's financial statements: (i) credit investment activity, which comprises lending activity including long-term corporate and interbank financing as well as financing through trade related loans, (ii) treasury, which includes operations in financial markets, transactions with securities, derivative financial instruments, foreign currency and liquidity management and (iii) other operations, consisting mainly of the operational leasing services, credit portfolio management and other non-core operations.

The following table presents revenues from each segment in EUR million for each year ended 31 December 2015, 31 December 2016, and, respectively, 31 December 2017, as well as for the six-month period ended 30 June 2017 and, respectively, 30 June 2018:

(EUR million)	**31 December 2015**	**31 December 2016**	**31 December 2017**	**30 June 2017**	**30 June 2018**
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Credit investment activity[1]	2.1	1.52	2.2	0.5	7.81
Treasury	15.2[3]	16.66	18.7	9.13	4.81
Other operations	1.64	1.55	3.37	1.71	1.37
Profit for the period[2]	2.1	0.80	1.01	2.28	5.75

Source: The Financial Statements

[1] The figure shows the interest and commission income and other segment income net of interest and commission expenses, loan impairments and other segment expenses.

[2] The total profit includes other elements such as unallocated income and expenses.

[3] In 2016, the Issuer introduced a new methodology for evaluating the segmentation of profit and loss. In particular, the Issuer reclassified the re-evaluation of the open currency position and derivatives as part of the treasury segmentation. The treasury segment result as of 31 December 2015 is re-calculated based on this new methodology.

Operating income from the credit investment activity decreased by EUR 0.58 million in 2016, from EUR 2.1 million as of 31 December 2015 to EUR 1,52. million as of 31 December 2016, decreased by EUR 3.72 million in 2017,

year-on-year, to EUR 2.2 million as of 31 December 2017 and, as of 30 June 2018, increased by EUR 3.47 million on a year-on-year basis, from EUR 2.28 million as of 30 June 2017 compared to EUR 5.75 million as of 30 June 2018, mainly due to grow interest income from credit investment activity in the first half of 2018.

Treasury operating income amounted to EUR 16.66 million as of 31 December 2016, increasing by EUR 1.46 million compared to EUR 15.2 million as of 31 December 2015, increasing by EUR 2.04 million year-on-year, to EUR -18.7 million as of 31 December 2017. In the first half of 2018 compared to the same period of 2017, treasury operating income continued to decrease by EUR 4.32 million or 47%, from EUR 9.13 million as of 30 June 2017 to EUR 4.81 million as of 30 June 2018. The decrease of income in the treasury segment was mostly due to dealing in foreign currencies and operations with derivatives.

Other operating income (such as income from lease of investment property), amounted to EUR 1.64 million as of 31 December 2015 and slightly decreased to EUR 1.55 million as of 31 December 2016 and increased to EUR 3.37 million as of 31 December 2017. In the first six months of 2018, operating income from other operations amounted to EUR 1.37 million as of 30 June 2018, decreased by EUR 0.34 million or 19.88% compared to EUR 1.71 million as of 30 June 2017, decreasing with a comparable rate to that registered for the first semester of 2017.

In 2016, profit decreased by EUR 1.3 million or 61.9%, from EUR 2.1 million as of 31 December 2015 to EUR 0.8 million as of 31 December 2016, while in 2017 continued to increase to EUR 1.01. In the first six months of 2018, profit increased by EUR 3.47 million or 152.2% from EUR 2.28 million as of 30 June 2017 to EUR 5.75 million as of 30 June 2018. The increase in the net profit in the first half of 2018 is mainly due to the fact that allowance for loans impairment was not created in the first half of 2018 (in 2017 the allowance for loans impairment in the amount of EUR 3.78 million was created in the first half of the year).

In terms of the Group's assets, the net value of the assets of each segment in EUR million was as follows for each year ended 31 December 2015, 31 December 2016 and, respectively, 31 December 2017, as well as for the six-month period ended 30 June 2017, and respectively 30 June 2018:

(EUR million)	**31 December 2015**	**31 December 2016**	**31 December 2017**	**30 June 2017**	**30 June 2018**
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Credit investment activity	306.3	363.4	644.4	500.81	711.28
Treasury	400.2	421.58	334.84	406.04	327.48
Other operations	102.9	96.42	96.80	95.80	94.4
Total assets	809.4	881.44	1096.04	1,002.7	1,133.16

Source: The Financial Statements.

Assets allocated for credit investment activity increased by EUR 57.1 million or 18.64%, from 306.3 million as of 31 December 2015, year-on-year, to EUR 363.4 million as of 31 December 2016, by EUR 84.41 million or 20.27%, from EUR 416.4 million as of 30 June 2016 to EUR 500.81 million as of 30 June 2017 and by EUR 210.46 million or 42.02%, year-on-year, to EUR 711.27 million as of 30 June 2018.

Assets allocated for treasury activity amounted to EUR 400.2 million as of 31 December 2015, increasing to EUR 421.58 million as of 31 December 2016 by EUR 21.38 compared to the same period of 2015 and decreasing to EUR 327.48 million as of 30 June 2018, by 78.56 million compared to EUR 406.04 million as of 30 June 2017.

In 2016, the value of other assets of the Group (such as investment property and other assets) decreased by EUR 6.48 million or 6.3%, from EUR 102.9 million as of 31 December 2015 to EUR 96.42 million as of 31 December 2016. In 2017, the value of other assets decreased by EUR 0.38 million or 3.94% year-on-year, to EUR 96.8 million. As of 30 June 2018, the total value of other assets decreased by EUR 1.4 or 1.46% year-on-year, from EUR 95.8 million as of 30 June 2017 to EUR 94.4 million as of 30 June 2018.

Credit investment activity

Lending business in general

The 2018-2022 Strategy clarifies the priorities of the Issuer's loan operations both in terms of its institutional and industry focus and in terms of principles of selecting partners and counterparties. The Issuer will focus on executing medium-sized projects to promote the development of the national economies of Member States and on supporting financial transactions both between them and third countries, which includes funding export/import operations and investment.

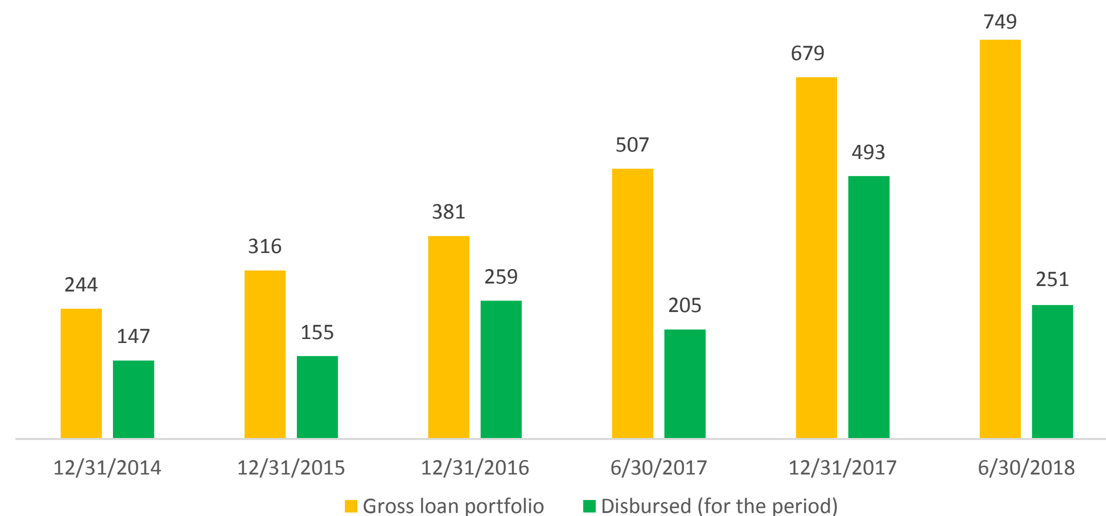
The main financial instruments developed and currently offered by the Issuer are the following:

- *for corporate and other borrowers (national development banks and other financial institutions)*: project finance, modernisation, export-import support, PPP through direct financing, syndicated loans and club deals with maturity from 1 to 15 years with loan volume up to EUR 60 million;
- *for all client types: trade related loans and documentary transactions* with average ticket of EUR 1 million and maturity of up to 2 years.
- *in the SME segment*: credit lines through selected financial institutions and syndicated loan facilities with maturity from one to seven years and loan volumes up to EUR 40 million;

As of 30 June 2018, amounts of loans granted by the Issuer to clients range between EUR 5 and EUR 90.0 million.

In line with its key objectives under the 2018-2022 Strategy, in certain member-states the Issuer intends to further expand its investments in funds, as well as equity investments. The total size the Issuer's equity investment will be limited to 5 – 10% of the total loan portfolio.

The following chart shows the development of the Issuer's gross loan portfolio () in the years ended 31 December 2015, 2016, 2017 and the six-month periods ended 30 June 2017 and, respectively, 2018 in EUR million:



Source: The Financial Statements and Group's management report (for disbursed amount).

The Issuer's net loan portfolio is 63.3% denominated in EUR. As of 30 June 2018, approx. 19.8% of the Issuer's loan portfolio net of allowance consisted of loans extended in USD, 5.5% of the Issuer's loan portfolio - extended in RON and HUF. No part of the Issuer's loan portfolio is securitised.

In terms of maturity, as of 30 June 2018, 6.3% of the outstanding amounts net of allowance under loans to banks are to be repaid less than one month, 5.1% are to be repaid within one to three months, 18.8% are to be repaid within three months to one year, 63.3% are to be repaid within one year to five years and 6.5% over five years.

As of 30 June 2018, 2.2% of the outstanding amounts net of allowance under loans granted to corporate clients are to be repaid within less than one month, 3.3% to be repaid within one to three months, 12.9% to be repaid within three months to one year, 27.8% to be repaid within one year to five years and 53.8% over five years.

As of 30 June 2018, non-performing loans ("**NPLs**") coverage ratio was of 133.2%.

Approach to SME lending

As at 30 June 2018, 5% (approx. EUR 47 million) of the Issuer's net loan portfolio was provided to the SME segment through financial intermediaries. The Issuer considers the financing of the SME segment as one of the main focus points of its mission, particularly due to the dynamic and growing importance of SMEs in the economy of its Member States. Under the current Issuer's SME support programme, funds are provided by the Issuer to its financial intermediaries who thereafter use such funds for the purposes of SME project financing. The Issuer supervises proper utilisation of the funds through monitoring a number of key parameters of the financing (*e.g.*, business activity, structure of shareholder/ participants, annual sales) to the ultimate SME borrowers.

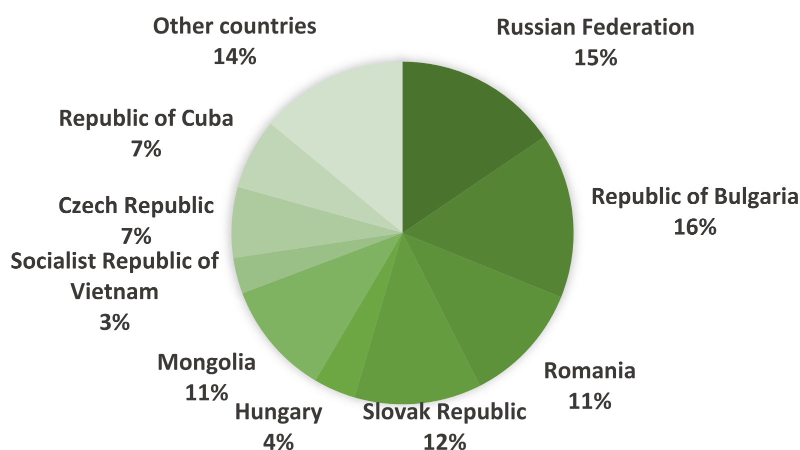
The following areas are considered as priorities for the Issuer's SME financing:

- *Innovation*: this includes technology start-ups, companies with potential in the trade of new technologies based on its existing intellectual property and/or know-how, as well as acquisitions of new equipment (under five years old);
- *Modernisation*: financing the acquisition of technologies, real estate and other capacities, necessary for the expansion of production;
- *Resource and energy efficiency*: this includes the financing of equipment aimed at calculating and optimizing the use of resources;
- *Social responsibility*: financing of projects aiming to encourage mutual exchange between the Member States in terms of technology transfer, know-how and workforce, as well as projects aiming to stimulate employment and the creation of new jobs in the Member States.

As part of the SME lending strategy, the Issuer, has supported the European Investment Fund (EIF), together with the Development Bank of Austria (OeEB, administering investment for the Austrian Ministry of Finance), the Czech-Moravian Guarantee and Development Bank (ČMZRB), the SZRB Asset Management (SZRB AM, asset management subsidiary of the Slovak Guarantee and Development Bank) and the Slovene Enterprise Fund (SEF), in the launch of a regional fund-of-funds initiative focused on boosting equity investments in Austria, Czech Republic, Hungary, Slovakia and Slovenia. The fund of funds is expected to mobilize at least around EUR 160 million in equity investments into SMEs and small mid-caps in the five countries, as well as additional investments in the wider region. EIF has contributed 40% of the EUR 80.3 million size of the CEFoF, which includes commitments of EUR 12 million by OeEB, EUR 8.2 million by ČMZRB, EUR 10m by SZRB AM and EUR 8 million by SEF, topped-up by EUR 10 million from the Issuer, another international financial institution. The CEFoF's size may later increase, particularly if a new investor from the target region joins.

Industry sectors and geographic structure of the loan portfolio

In terms of geographic distribution, the structure of the gross loan portfolio (before allowance for loan impairment) as of 30 June 2018 was the following:



Source: The Financial Statements.

As at 30 June 2017, the aggregate amounts of the long-term loans and trade financing loans granted to the top four banks (in terms of the amount of the loans extended to them by the Issuer) amounted to EUR 99.80 million, representing 61% of the total amount of the loans granted to banks by the Issuer. By comparison, as at 31 December 2017, the total amount of such loans was EUR 70.1 million and as at 30 June 2018, this was of EUR 164.116 million, from which EUR 132.496 million are major or top five loans and EUR 1.577 million related allowances, representing 80.73% of the total amount of the long-term loans granted to banks by the Issuer.

Out of the total amount of the loans extended to banks by the Issuer, as of 30 June 2018, 33.6% were provided to banks based in Mongolia, 30.1% to banks based in Cuba, 15.3% to banks based in Vietnam, and 21% to banks based in other non-member countries.

Also, as at 30 June 2018, the Issuer had extended loans to corporate clients in the amount of EUR 545.6 million loans net of allowance for loan impairment, out of which 19% was provided to corporate clients based in the Russian Federation, 20% to corporate clients based in the Republic of Bulgaria, 13% to corporate clients based in Romania, 9% to corporate clients based in the Czech Republic, 5% to corporate clients based in Hungary, 16% to corporate clients based in Slovak Republic, 4% to corporate clients based in Mongolia and 13% to corporate clients based in other countries.

In terms of sector concentration, as at 30 June 2018, 23% out of the Issuer's gross loan portfolio to corporate clients was provided to corporate clients active in the leasing industry and 26 percentage to corporate clients active in the production and transmission of electricity industry, 9 % metal working and the same percentage to corporate clients active in the communications industry, 5% was provided to clients active in each of crude oil refining and advisory services, 4% to clients active in each of food and beverages, mining and manufacturing of electrical equipment industry,2% to clients active in the real estate industry and the same to clients active in each of production of pharmaceutical products, agriculture, transport and oil and gas production industries

Interest income and margin

Increase in the lending activity of the Issuer starting with the year ended 31 December 2016 until and including the six-month period ended 30 June 2018 has led to an increase in the Issuer's interest income in this period. Interest income increased by EUR 5.4 million or 19.6% during the year 2016, from EUR 27.1 million as at 31 December 2015 to EUR 32.5 million as at 31 December 2016. In 2017, the Issuer's interest income increased by EUR 3.4 million or 10.4% year-on-year, to EUR 35.96 million as at 31 December 2017. In the first six months of 2018, the Issuer's interest income increased by EUR 5.5 million or 34.1% year-on-year, from EUR 16.1 million as at 30 June 2017 to EUR 21.6 million as at 30 June 2018.

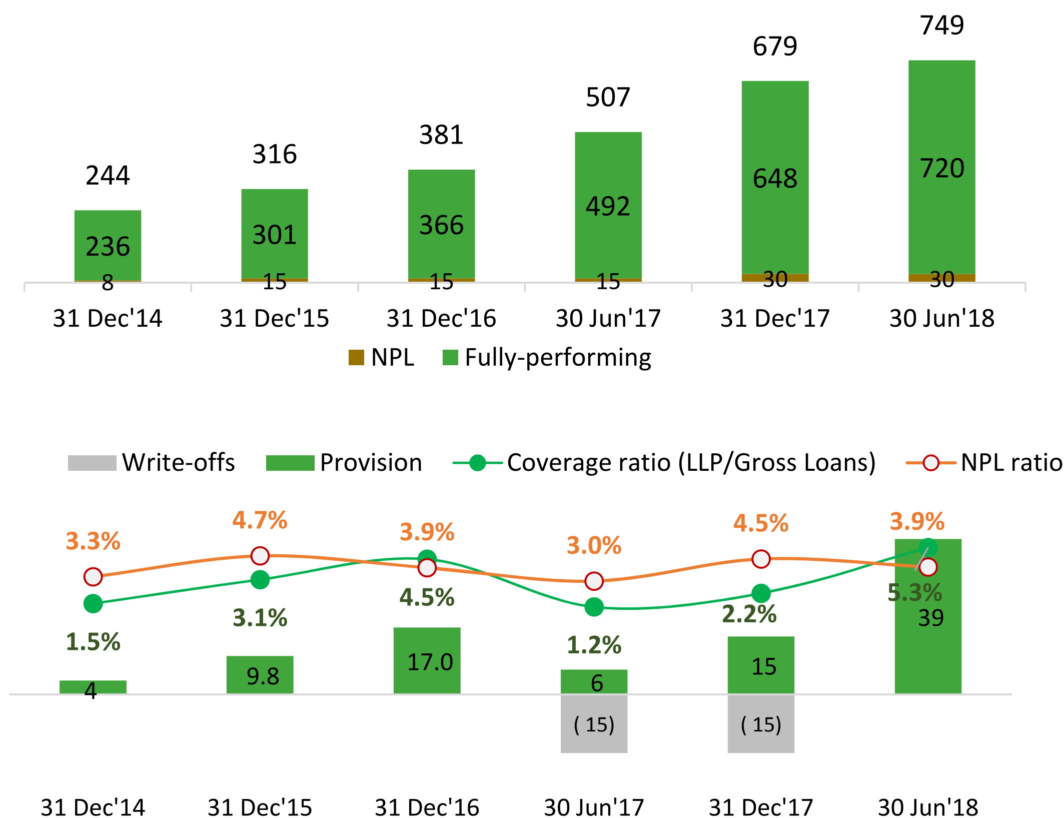
The Issuer's total net interest income before allowance for loan impairment was of EUR 3.3 million as at 31 December 2017, compared to EUR 4.8 million as at 31 December 2016, representing a decrease of EUR 4.6 million or 48.9% in 2016 and 31.2% or EUR 1.5 million in 2017. In the first six months of 2018, the Issuer's total net

interest income before allowance for loan impairment was of EUR 11.2 million, having increased by EUR 1.5 million or 15.44% year-on-year, compared to EUR 9.7 million as at 30 June 2017 (including hedged percentages cross-currency interest-rate SWAP).

Net interest margin (before allowance and including hedged percentages exchange rates of cross-currency interest-rate SWAP) decreased by 0.6 percentage points in 2016, from 3.1% as at 31 December 2015, to 2.5% as at 31 December 2016 and stay stable as 2.5% as at 31 December 2017 The Issuer's net interest margin as of 30 June 2018 was 2.42 %, compared to 2.4% as of 30 June 2017, having decreased by 0.2 percentage points year-on-year.

Non-performing loans

Until 2013, the Issuer had a significant historic burden in terms of the NPLs, which it managed to settle by 31 December 2013. Total value of NPLs as of 31 December 2012 was EUR 96.6 million, whereas total number of NPLs was 11. Significant part of the NPLs portfolio, in the amount of approx. EUR 54.7 million was sold in 2013 and the Issuer's Council agreed to write off the remaining part of the NPLs by 31 December 2013. The following charts show the development of the NPLs within the Issuer's aggregate credit portfolio and loan loss provisions as at 31 December 2014, 2015, 2016, 2017 and 30 June 2017 and 2018 respectively:



Source: The Financial Statements. The coverage ratio is calculated as ratio between the total amount of loan loss provisions and the core oustanding amounts under the loans extended by the Issuer.

Loans to borrowers in the Republic of Cuba, 100% provisioned, are not included in the diagrams above (see "*Business - Credit investment activity – Deposits with the National Bank of the Republic of Cuba*").

Provisions for NPLs represented 5.4% (EUR 39.3 million) of the total outstanding amount under the loans granted by the Issuer as of 30 June 2018, compared to 1.2% as of 30 June 2017 increasing by EUR 33 million due to implementation of IFRS 9 since 1st of January 2018 Changes during 2017 considered default by a Romanian

corporate client on its 15.1 million EUR debt to the Issuer and write-off of uncollectible loans extended by the Issuer to a Slovak company, and a Bulgarian real estate developer.

The total amount of provisions made according to internal provisioning instructions of the Issuer represented 2.2% (EUR 14.7 million) of total outstanding amount under the loans granted by the Issuer as of 31 December 2017, compared to 4.5% (EUR 17 million) as of 31 December 2016 and to 3.1% (EUR 9.7 million) as of 31 December 2015.

The Issuer's NPLs coverage ratio was 133.2% as of 30 June 2018, while the NPL ratio was, at the same date, of 3.9%, remaining below 5% since 2012.

Adjustment of the former sovereign debt of the Republic of Cuba

As part of the restructuring of the Cuban debt, the Issuer's Council 100th meeting of 5-6 December 2013 held in Moscow approved the conversion in EUR of the historic debt of the Republic of Cuba towards the Issuer, as well as a partial write-off of the Issuer's receivables against borrowers in the Republic of Cuba. The Issuer and the Republic of Cuba also agreed upon the principles and terms of the settlement of the remaining debt. The debt was restructured and agreed in the amount of the EUR 35 million to be repaid in 25 years.

Trade finance

As part of its re-launch strategy commenced in 2012 (see "*Strategy – Re-launch Programme and 2013-2017 Strategy. Main achievements.*"), the Issuer commenced to broaden its portfolio of trade finance products to provide its customers with the full range services, including irrevocable reimbursement undertakings, banking guarantees, counter-guarantees, standby letters of credit, trade related loans and financing under letters of credit covering trade finance operations of counterparty banks, and ECA-covered finance, covering export and import transactions of the Member States. According to its mission, the Issuer's activities are focused on the promotion of trade and economic cooperation between the Member States and the support for the SMEs, which includes export-import supplies of hi-tech equipment, medical supplies, foodstuffs, consumer goods and services.

In April 2014, the Issuer executed a Multilateral Memorandum on Cooperation with a number of ECAs from Member States, including EXIAR, EXIMBANKA SR, EGAP, BAEZ and EximBank Romania. Pursuant to the Memorandum, the Issuer will act as a bridging financing institution, while the ECAs will provide insurance coverage in relation to projects carried out in cooperation by Member States. The Memorandum has been subsequently joined by other ECAs. Thanks to its relationships with ECAs, the Issuer was also recently included in the exclusive list of currently only 10 multilateral financial institutions rated under the OECD Export Credits Arrangements.

Since March 2015, the Issuer has issued its 121 trade finance deals supporting export from Czech & Slovak Republic, Hungary, Bulgaria, Russia and Vietnam as well as import to Russian Federation, Romania, Slovak Republic and Mongolia from Australia, Belgium, Poland, Germany, France, China, Italy, the Netherlands, Spain, Switzerland, Singapore, Oman, Turkey and Japan for total amount of EUR 172.65 million**.**

In 2015, the Issuer introduced its Trade Finance Support Programme (the "**TFSP**") and launched its new trade finance products, particularly aimed at increasing exports of goods from Member States to other countries, having successfully completed multiple trade finance deals, by issuing irrevocable reimbursement undertakings by the order of Russian, Belorussian, Armenian and Mongolian issuing banks in favour of, among others, Československá obchodní banka a.s. (Czech Republic and Slovak Republic), K&H Bank ZRT (Hungary), Raiffeisen Bank International AG (Austria), Commerzbank AG (Germany), Sberbank CZ a.s. (Czech Republic), Česká spořitelna s.a. (Czech Republic), Aktif Yatirim Bankasi A.S. (Turkey), UniCredit Bulbank AD etc. in deals supporting export of different kinds of high-technology equipment from the Czech Republic, the Slovak Republic, Hungary to Belarus, Russia, Armenia and Mongolia as well as support of export from People Republic of China, Turkey,Australia, Germany, USA and Japan to Russia and Mongolia.

In 2016 and 2017, in line with its mandate, the Issuer continued to grow its trade finance portfolio and expand the geography of supported trade finance transactions. Still in 2016, for the first time, the Issuer has covered the risk of Mongolia's Golomt Bank towards Československá obchodní banka a.s. (ČSOB, Czech Republic), supporting delivery of automatic flour packaging line from the Czech Republic to Mongolia. This transaction is important,

among other reasons, from the perspective of expanding geography with ČSOB, one of the main partners of the Issuer when it comes to trade finance.

In November 2016, the Council approved a new trade finance product – short term trade related loans ("**TRL**"). For the purposes of conducting trade finance operations, the Issuer has also concluded a number of master agreements with financial institutions both from its Member States and from non-member countries to provide trade-related loans for such transactions.

Under the TFSP, in December 2016, the Issuer concluded its first framework agreement with Russian CB LOCKO-Bank on provision of TRL to finance foreign trade operations and carried out its first transaction in favour of the borrower in the amount of USD 1 million. The funds will be used to finance supplies of products from Vietnam to the Russian Federation. In February 2017, the Issuer provided a short-term targeted trade related loan to Russian CB LOCKO-Bank for the amount of USD 3 million to finance the purchase of building and finishing materials made in Poland to be imported to the Russian Federation. From December 2016 until August 2018, the Issuer issued 30 TRLs for a total amount of approximately EUR 96 million.

On 23 March 2017, the Issuer issued the first direct guarantee as part of the TFSP, on behalf of the CJSC VTB Bank (Belarus) to secure payment obligations of the Atlant-M Farzeughandel JLLC, Volkswagen's general importer in the Republic of Belarus, to Russian Volkswagen Group Rus for the amount of RUB 260 million. The term period is one year.

In May 2017, the Issuer's TFSP was named best product at the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) Awards 2017, held in Macao, China.

In June 2017, the Issuer issued its first standby letters of credit by the order of Trade & Development Bank of Mongolia for total amount of EUR 0.5 million in favour of Unicredit bank (Russia) and securing Trade & Development Bank of Mongolia's payment obligations under its counter-guarantees, while also signing a framework agreement on trade financing with Armenian ZAO ARMBUSINESSBANK. In August 2017, the first joint transaction was carried out under the Issuer's Trade Finance Support Programme (TFSP), consisting of an irrevocable reimbursement undertaking by the Issuer by the order of ZAO ARMBUSINESSBANK for EUR 2.2 million in favour of the Czech counterparty Československa Obchodni Banka A.S. (Prague). The first deal with ZAO ARMBUSINESSBANK expanded the geography of the Issuer's trade financing operations, guaranteed the supply of automated equipment for SHPP from the Czech producer and provided additional support to environmental initiatives in Armenia, in line with the Issuer's Development Strategy for the period 2018-2022 - under which the Issuer as a "green" development institution actively supports a number of priority sectors, including small and renewable energy.

Also, in December 2017, for the first time in its recent history, the Issuer supported an exporter from Bulgaria within its TFSP. This deal helped the Issuer to further diversify its portfolio of irrevocable off-balance sheet commitments related to trade finance.

The Issuer also consistently increases lending and investment activities in Mongolia. Since 2012, the total volume of the Issuer's investments in the Mongolian economy has amounted to over USD 650 million. Trade finance transactions are also growing at a rapid pace with the participation of Mongolian counterparts. Thus, starting from November 2016, the Issuer has executed 29 trade finance deals to support the supply of products from the Czech Republic, Japan, Oman, Switzerland, Russia, Belgium, Spain, and Germany to Mongolia for a total amount of EUR 9.4 million.

For 2018 the Issuer issued 27 trade finance deals for total amount EUR 77 million by the order of Armenian and Belorussian borrowers. In March 2018, the Issuer entered into a framework agreement on the implementation of trade finance transactions with Armenian Ardshinbank Closed Joint-Stock Company, which joined the Issuer's Trade Finance Support Programme (TFSP). As part of these arrangements, the Issuer executed the pilot transaction, issued irrevocable reimbursement undertakings by the order of Ardshinbank in favor of leading Bulgarian producer of technologies for small and medium-sized hydropower plants with the participation of UniCredit Bulbank AD (Bulgaria) as confirming bank for amount EUR 1.45 million. In April and August 2018 the Issuer provided its first trade-related loans (TRLs) to Belagroprombank, Belarus for the total amount of EUR 31.87 million in order to facilitate import of oil products from the Russian Federation to the Republic of Belarus.

Treasury - investment and trading activities

In 2016, the value of the Group's treasury assets increased by EUR 21.4 million or 5.34% year-on-year to EUR 421.6 million as of 31 December 2016. As of 30 June 2018, the value of the Group's treasury assets decreased by EUR 7 million or 2.1% year-on-year, to EUR 328.1 million. The Group's income generated by its investment and trading activities, has increased by EUR 1.5 million or 9.9% in 2016, from EUR 15.2 million as of 31 December 2015 to EUR 16.7 million as of 31 December 2016, increased by EUR 2 million or 12% year-on-year in 2017 to EUR 18.7 million as of 31 December 2017, and, respectively decrease by EUR 4.1 million or 47% year-on-year in the first six months of 2018 compared to the same period of 2017, from EUR 9.1 million as of 30 June 2017 to EUR 4.8 million as of 30 June 2018.

The Group's portfolio of available-for-sale investment securities increased by EUR 153.2 million or 131.9% in 2016, amounting to EUR 269.3 million as at 31 December 2016, as compared to EUR 116.1million as at 31 December 2015. As of 31 December 2017, the value of the Group's portfolio of available-for-sale investment securities decreased by EUR 53.9 million or 20% compared to the same period of 2016, to EUR 215.4 million. As of 30 June 2018, the Issuer's securities at fair value (classified under IFRS 9) portfolio decreased by EUR 39.8 million or 17% to EUR 193.9 million and consisted of (i) government bonds of the Member States *i.e.,* EUR-denominated, USD-denominated and RUB-denominated securities issued or guaranteed by the Ministries of Finance of these countries, maturing in 2023-2027, while the annual coupon rate for these bonds varied from 0.4% to 7.6%; (ii) corporate bonds issued by large companies and banks of Member States, as well as corporate international companies and development banks that have similar goals and missions as the Group, maturing in 2020-2028, with annual coupon rate for these bonds varying from 0.1% to 7.8% and (iii) equity securities, represented by shares and depositary receipts issued by large international companies.

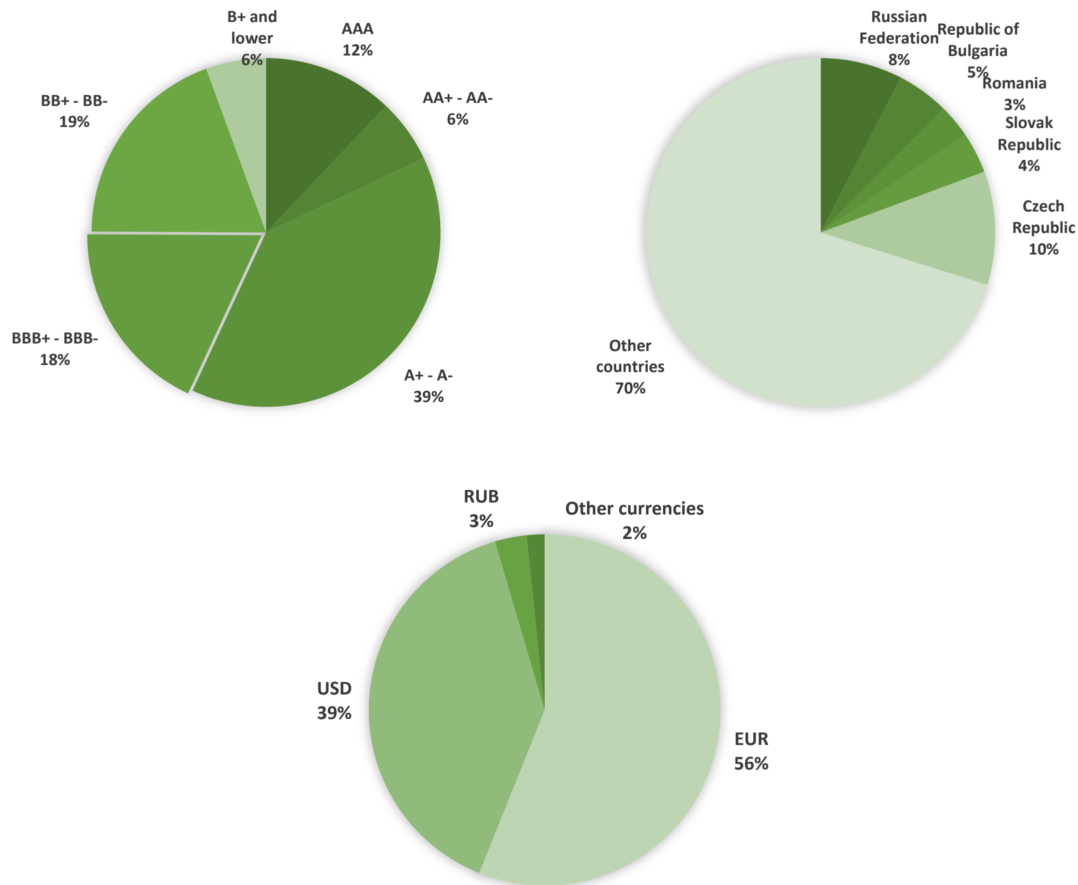
As at 1 January 2018, the Group reclassified a part of its securities previously classified as "available for sale" to "debt instruments measured at amortized cost". These instruments satisfy the SPPI criterion and are held to collect related cash flows rather than for sale. Corporate bonds comprise investment grade bonds issued by large companies and banks of the member countries of the Issuer, as well as international companies and development banks with goals and missions similar to those of the Group. The bonds mature in 2021-2026 and the coupon rate varies from 1.8% to 2.1.

The treasury division of the Issuer conducts its operations within a comprehensive framework set forth by regulations adopted by the competent governing bodies of the Issuer and the guidelines established by the Issuer's Financial Committee. The treasury operations of the Issuer include short-term money market operations, including REPO operations with the Issuer's portfolio of high-quality marketable securities The Issuer's treasury division is guided by the principles of transparency, accountability and profitability within conservative risk and limitations parameters.

The Issuer's treasury policy is outlined in the 2018-2022 Strategy and the Issuer's investment policy statement adopted on a yearly basis by the Issuer's Management Board. In line with these documents, the main objective of Issuer's treasury operations is to effectively manage the Issuer's liquid assets in order to safeguard their liquidity, protect the Issuer's capital and generate a stable financial return.

Treasury activities are regarded by the Issuer as ancillary to its main lending activities, generating return which may be further used to support the Issuer's financing operations within the Member States.

As of 30 June 2018, the diversification of assets under Treasury management by ratings, currencies and countries was as follows:

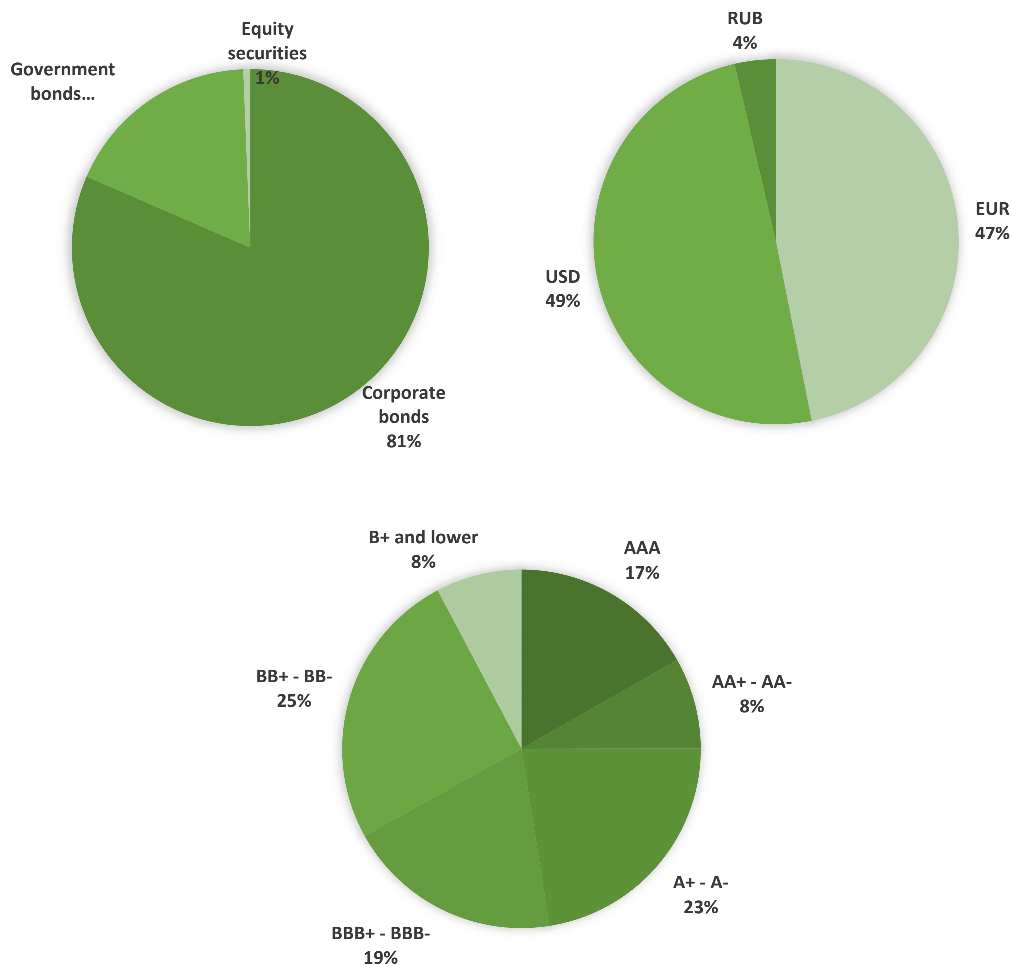


Source: The Financial Statements.

Primarily, the Issuer's investment securities portfolio is composed of high-quality marketable sovereign and corporate debt securities with the fixed income issued by Member States and entities from Member States.

As of 30 June 2018, the Issuer's government bonds comprise EUR- and USD-denominated securities issued and guaranteed by the Ministries of Finance of these countries. The bonds mature in 2023-2027. The coupon rate for these bonds varies from 0.4% to 7.6%, as well as corporate bonds comprise bonds issued by large companies and banks of the member countries of the Issuer, as well as international companies and development banks with goals and missions similar to those of the Group. The bonds mature in 2020-2028. The coupon rate for these bonds varies from 0.1% to 7.8%. As at 30 June 2018, bonds issued by Member States and other governments in the region represented 17% of the total value of the Issuer's securities portfolio. Other investments bonds were made in respect in corporate of fixed income securities. As of 30 June 2018, bonds rated BB- to AAA represented 100% of the total value of the Issuer's corporate bonds portfolio.

As of 30 June 2018, the diversification of the securities portfolio by types of instruments, currencies and ratings, was as follows:



Source: The Financial Statements.

The table below shows the break-down of the Issuer's available-for-sale securities, based on currency, amount and duration to maturity, as of 30 June 2018:

Securities at fair value through other comprehensive income	***Currency***	***Amount (EUR million)***	***Average Duration to Maturity***
	EUR	95.184	5.1Y
	USD	90.083	6.8Y
	RUB	8.579	6.6Y
	Total equivalent in EUR million:	193.846	

Securities at amortized cost	*Currency*	*Amount (EUR million)*	*Average Duration to Maturity*
	EUR	15,101	6.0Y
	USD	26,321	6.4Y
	Total equivalent in EUR million:	41.422	

Source: Information in column "Average Duration to Maturity" is extracted from the Group's management report.

In 2014, the Issuer decided to reclassify part of the securities portfolio as held-to-maturity in line with the International Accounting Standards IAS 39. The main goal for the reclassification was to secure earnings in form of permanent and steady coupon income at a moderate level of risk, while avoiding daily volatility in mark-to-market valuations. In July 2016, the entire held-to-maturity portfolio was transferred to available-for-sale with the additional capital gain. This action allowed the Issuer to sustain and improve its liquidity position in the face of high financial market volatility as well as to enhance its portfolio investment quality by using previously unutilised liquid assets to invest in securities with higher credit ratings, namely A-rated securities.

Foreign exchange risk is mitigated by using different hedging techniques, using derivatives or currency swaps. In line with the Issuer's commitment to keep up with regulatory environment relating to derivatives, these operations are carried out based on ISDA Master Agreements concluded with partners. The Issuer also conducts its operations by observing the standards set forth in the European Market Infrastructure Regulation (EMIR) adopted at EU level.

In 2014, the Issuer adhered to ISDA 2013 EMIR NFC Representation Protocol and ISDA 2013 EMIR Portfolio Reconciliation, Dispute Resolution and Disclosure Protocol.

Other operations

The Group also carries out several non-core activities, mainly through the Subsidiary, primarily consisting of lease operations with respect to its building. The Group rents out part of its building under operating lease agreements. As of 31 December 2017, the Group's revenues from lease of property increased by EUR 0.59 million or 17.15% to EUR 4.03 million, as compared to EUR 3.44 million as of 31 December 2016. As of 30 June 2018, such revenues decreased by EUR 0.02 million or 0.8% to EUR 2.03 million, as compared to the same period of 2017.

COMPETITION

The Issuer operates in a relatively competitive market for the provision of financing for development projects. At first glance, the Issuer's principal competitors are national, regional and other international development banks as well as large local commercial banks operating within the region. As the Issuer's mission is to support economic growth and development in Member States, the Issuer attempts to avoid direct competition with commercial banks to the extent possible.

The Issuer does not, however, believe that it faces significant competition from small- or medium-sized commercial banks active in the region, which generally target different industries than the Issuer and offer shorter-term financing products, at less competitive interest rates. The Issuer also believes that its clearly defined mission and lending criteria, combined with the unique part of its mandate to foster economic cooperation between its Member States, spread on three continents, and to support relevant projects, do not generally overlap with those of other development banks active in the same region as the Issuer. On the contrary, the Issuer seeks to partner with other development banks in accomplishing its objectives, having already co-financed projects with leading development institutions such as the International Finance Corporation (IFC), the Black Sea Trade and Development Bank (BSTDB), the Eurasian Development Bank (EDB), the European Bank for Reconstruction and Development (EBRD) and the Netherlands Development Finance Company (FMO), as well as having concluded cooperation agreements with other such institutions.

RELEVANT GEOGRAPHIC MARKETS

For the reasons of achieving the Issuer's mission, which is to facilitate sustainable and inclusive growth and competitiveness of national economies of the Member States, the Issuer's loan and trading portfolio includes, and, most likely, will continue to include, concentrations in particular Member States. Accordingly, the economic situation in the Member States affects the financial conditions and prospects of the Issuer. The Issuer has specified its value proposition for each Member State, which is included in its recently adopted 2018-2022 Strategy, and is currently working to detail such strategic priorities in country strategies with, focus on the specificities of the development of the Issuer's operations within each Member State including potential partners and counterparties of the Issuer within the respective Member State.

According to its strategic vision, the Issuer's growth is associated mainly with increase of its loan portfolio in each Member State, focusing on syndications as well as integrational and flagship projects, with further diversification of its instruments, including the use of new funding sources, as well as with access to promising markets outside the Issuer's current geography. In this respect, the Regulation on the Special Status of Participation in the Activities of the International Investment Bank, approved at the Issuer's Council 106th Meeting held on 9 December 2016 in Moscow, Russia, provides for new types of cooperation between the Issuer and states, international financial institutions, or other banking, economic, or financial organizations and funds, such as those in the form of associated members (available to states and IFIs) or associated partners (available to other organizations and funds) or observer. These new identified forms of cooperation with potential partners is expected to enable the Issuer to launch dedicated work on analysing options for expanding its operating territory in the interest of its Member States.

This section of the Offering Circular sets out certain high-level information about the macroeconomic situation in the main current relevant geographic markets of the Issuer, as well as about the Issuer's main completed, pending or prospective operations in such markets.

Czech Republic

The Czech Republic has an open economy with strong links in supply chains and direct investments with Western Europe, in particular Germany. This is one of the reasons why the World Bank ranks the Czech Republic 30th among the world's most attractive countries for doing business (*source*: The World Bank 2018 Doing Business Report). After the discontinuation of the overly tight monetary policy following the 2008/2009 crisis, export demand has picked up, leading to a recovery during 2013. The country's economic growth reached 2.6% in 2016, with a recovery to 4.4% in 2017 and is forecasted to have fallen to 3.7% in 2018 and to 3.2% in 2019 (source: Country Report Czech Republic, 2018 European Semester, European Commission). Current account balance registered a 0.2% of GDP in 2014 and 2015 and has increased in 2016 at 1.6%, slightly decreased in 2017 at 1.1% of GDP and is expected to decrease and reach a negative value in 2018 at 0.2% (*source*: IMF 2018 Article IV Consultation). The Czech Republic is rated AA- with a stable outlook by S&P, A1 with a positive outlook by Moody's and AA- with a stable outlook by Fitch.

General government gross debt as percentage of GDP has improved in 2014, reaching 42.2%, decreasing to 40% in 2015 and to 36.8% in 2016 and is expected to have slightly decreased to 34.6% in 2017 and to further decrease to 33.3 in 2018 and 32.5 in 2019 (*source*: Country Report Czech Republic, 2018 European Semester, European Commission).

Trade finance products, launched by the Issuer in 2015 - 2018, have been especially popular in the Czech Republic – since from March 2015 until August 2018, the Issuer issued 33 trade finance deals having an aggregate amount of approximately EUR 31.3 million, including IRUs in favour of CESKOSLOVENSKA OBCHODNI BANKA, A.S., Commerzbank AG, Sberbank CZ A.S., CESKA SPORITELNA A.S. supporting export operations of Czech Republic. In January 2016, the Issuer also disbursed the first tranche of a EUR 35 million credit facility signed in December 2015 with a Czech manufacturer of high-quality forgings, castings and ingots from steel and cast iron – the first loan granted by the Issuer to a Czech borrower in over 20 years.

In 2017 Československá obchodní banka, a.s. was awarded as the most active confirming bank in Czech Republic under the TFSP.

The Issuer expanded its Czech-based partnerships by concluding a Global Master Repurchase Agreement with Česká exportní banka in September 2015 and by concluding an ISDA Master Agreement with Sberbank CZ in July 2016.

On 31 July 2018, the Issuer closed its new trade finance deal with ARMBUSINESSBANK CJSC (Armenia) for EUR 2.2 million where the Issuer provided its irrevocable reimbursement undertaking to confirming bank - Československá obchodní banka, a.s. (Czech Republic) – under a letter of credit. In this particular deal the Issuer supported the leading Czech producer of technologies for small and medium-sized hydropower plants. This is the third deal closed by the Issuer with this exporter.

In April 2018, the Issuer successfully placed its inaugural CZK denominated private placement transaction with 3-year floating rate notes amounting to CZK 501 million on the Czech market. In June 2018, the Issuer decided to go another step forward in the capital market funding strategy and tap the outstanding April 2021 CZK Floater with an amount of 249 million, totaling to CZK 750 million.

Hungary

Hungary ranks 48st among the world's most attractive countries for doing business (*source*: The World Bank 2018 Doing Business Report), being one of the most open transitional economies in Eastern Europe. GDP registered a 4.0% growth in 2014, a 3.4% growth in 2015, a 2.2% growth in 2016 year-on-year, is estimated to have decreased by 3.8 % in 2017 and is likely to increase by 3.7% in 2018, respectively (*source*: Country Report Hungary, 2018 European Semester, European Commission).

Current account balance stood positive at 3.4% of GDP in 2015, decreased at 2.2% of GDP in 2016 and the preliminary report indicates a 4% of GDP increase in 2017 and a projection of 4% of GDP in 2018 (*source:* IMF 2018 Article IV Consultation).

General government debt as percentage of GDP was 76.6% in 2014, 76.7% in 2015, is estimated to have decreased to 76% in 2016 and to further decrease to 73.6% in 2017 and 71.3 % in 2018, respectively (*source*: IMF 2018 Article IV Consultation).

International rating agencies acknowledge the country's relatively stable financial state. Ratings levels are BBB- with a positive outlook by S&P, Baa3 with a stable outlook by Moody's and BBB- with a positive outlook by Fitch.

From March 2015 until August 2018 the Issuer has issued 9 trade finance deals, including IRUs, in favour of Commerzbank AG, K&H Bank Zrt, Unicredit Bank Hungary ZRT and SBERBANK MAGYARORSZAG ZRT for total amount EUR 2,53 million. Supporting export operations of Hungary and has successfully covered payment under 5 expired trade finance deals.

In October 2015, the Issuer also concluded an ISDA Master Agreement with OTP Bank, followed by a Strategic Cooperation Agreement with the same party in June 2016. In June 2016, the Issuer has concluded an ISDA Master Agreement with Eximbank Hungary. Also, in June 2016, the Issuer and the Ministry of Foreign Affairs and Trade of Hungary signed a Memorandum of Understanding providing a basis for coordination of activities between the Issuer and the Hungarian authority in such areas as credit support for SMEs, implementation of export-import operations, investments and sustainable development financing.

In April 2017 the Issuer has open HUF account in KBC Bank, NV for operations in Hungarian forints. Moreover, subsequent to increase of operations in HUF, the Issuer is currently negotiating the opening of HUF account in OTP Bank Nyrt.

On 18 June 2018, the Issuer signed a memorandum of understanding on the establishment of a European Unit in Hungary. The signed memorandum provides legal foundation for future joint work of the Issuer and the Government of Hungary concerning this matter, as well as fixes intentions of both parties to ratify the host-country agreement for the Issuer European Unit until the year-end, in order for the office to start operating at the beginning of 2019.

Mongolia

The country's economic growth reached a rate of 7.9% at the end of 2014, 2.4% at the end of 2015, is estimated to have reached a rate of 1.2 % GDP growth in 2016, a 5.1% growth in 2017 and a 5.0% growth in 2018. The Mongolian The economy has performed better than expected, fueled by an increase in demand for commodities and growth in FDI. Economic growth reached 5.1 percent in 2017 compared to initial projections of -0.2 percent of GDP. The non-mining sector is showing solid growth and contributing to the overall growth of the economy (*source*: IMF 2018

Staff Report for the Third Review Under the Extended Fund Facility-Press Release; Staff Report; and Statement by the Executive Director for Mongolia).

Non-mineral GDP growth depends in part on the pace of Development Bank of Mongolia's disbursements for investments in public investment projects and the extent to which the Bank of Mongolia's stimulus programs are continued.

The inflation rate was 13.1% in 2014 and decreased to 1.7% in 2015, 2.3% in 2016 and is expected to increase again to 9.3 % by end of 2017 and 4.4% by end of 2018. The overall fiscal deficit in 2014 was 11% of GDP year-on-year, has declined to 8.5 %of GDP in 2015 and has sharply increased to 17% of GDP in 2016, decreasing afterwards to 10.6% in 2017 and forecasted to further decline to around 1.5%of GDP by 2021. The primary balance is forecast to increase from a deficit of -13.1 percent of GDP in 2016 to - 5.5% of GDP in 2017 and - 3.1 % of GDP in 2018 and progressively reaching positive values up to 1.5 percent by 2021 (source: IMF 2017 Article IV Consultation).

The country's trade policies feature substantial flexibility and low tax barriers compared to the majority of other developing economies in the central Asian region. Nevertheless, Mongolia's narrow economic base has left the country highly vulnerable to external shocks—minerals account for 90 percent of all exports, and 90 percent of these are bound for China ("*From Natural Resource Boom to Sustainable Economic Growth: Lessons for Mongolia*" IMF Working Paper, April 15).

Under the circumstances, Mongolian government strives to strengthen and expand its external trade. At the beginning of 2015, Mongolia signed its first bilateral free trade agreement with Japan. The agreement provides for elimination of 5% export tax on imports of new Japanese-manufactured cars. Current account balance stood negative at -11.5% of GDP in 2014, -4% of GDP in 2015, but significantly improved from a deficit of 25.4% of GDP in 2013. In 2016 the current account balance is estimated to have remained stable at – 6.3 % and will decrease in 2017 to – 8.8 % (*source*: IMF 2018 Staff Report for the Third Review Under the Extended Fund Facility-Press Release; Staff Report; and Statement by the Executive Director for Mongolia).

Mongolia is rated B- with a stable outlook by S&P, B3 with a stable outlook by Moody's and B with a stable outlook by Fitch. Mongolia's long-term economic prospects are improved due to increasingly educated population and vast potential from mineral wealth. However, the economy faces significant short-term challenges, of which most important are the country's high external financing needs, falling foreign direct investments and the negative terms of trade shock (*source*: World Bank).

In 2015, the Issuer has also concluded ISDA Master Agreements and Global Master Repurchase Agreements with Trade&Development Bank of Mongolia, Khan Bank and XacBank. As of 30 June 2018, loans extended by the Issuer to clients in Mongolia amounted to more than EUR 79 million.

For 2016-2018, the Issuer has issued 29 trade finance deals for EUR 9.4 million including IRUs and standby letters of credit in favour of Československá obchodná banka, Commerzbank AG (Germany and Japan offices), Unicredit bank (Russia) and KBC Bank N.V. supporting export operations from Czech Republic, Japan, Switzerland, Belgium, Germany, Oman, Singapore, Spain, the Netherlands, and Russia to Mongolia.

Also, at the 21st meeting of the Russian-Mongolian Intergovernmental Commission (IGC) on Trade, Economic, Scientific and Technical Cooperation held in Moscow on February 28, 2018, the Issuer concluded an agreement with the Development Bank of Mongolia (DBM) on provision of the additional funding to the Mongolian party. The agreement calls for raising the Issuer's lending limit for DBM to EUR 50 million for a period of up to seven years to implement socially and economically significant projects in Mongolia.

Republic of Bulgaria

Bulgaria joined the European Union in 2007. This led to some immediate international trade liberalisation, without significant shock to the economy.

After a good growth performance of 3.6 % in 2015 and 3.9 in 2016, the economy is estimated to have slightly decreased by 3.8 % in 2017. In 2018 and 2019 further decreases are forecasted, of 3.7 % and 3.5 %, respectively (*source*: Country Report Bulgaria, 2018 European Semester, European Commission).

Bulgaria's current account balance is estimated at around 3% of GDP in 2017, significantly lower from its 2016 peak of 5.3% of GDP. Growing demand from trading partners is being out stripped by strong domestic demand,

leading to a higher increase in imports than in exports in 2017. This trend is expected to continue in 2018 and 2019, when the current account surplus is expected to drop. (*source*: Country Report Bulgaria, 2018 European Semester, European Commission). With the objective of boosting EU funds absorption and supporting national reform programme, in September 2015, the World Bank and Bulgaria signed a new Memorandum of Understanding on partnership and support in the implementation of the European Structural and Investment Funds for 2014-2020 period (*source*: World Bank).

Bulgaria is rated BBB- with a positive outlook by S&P, Baa2 with a stable outlook by Moody's and BBB with a stable outlook by Fitch.

The main operations of the Issuer in Bulgaria consist of the extension of loans to corporate clients, mainly active in the field of manufacturing, construction of buildings and transport and warehousing.

In June 2015, the Issuer has also concluded a Global Master Repurchase Agreement with Bulgarian Development Bank.

For 2017-2018, the Issuer has issued two trade finance deals for EUR 2.43 million including IRUs in favour of Commerzbank AG and UniCredit Bulbank AD supporting export of technological equipment and small hydropower plants from Bulgaria to Armenia.

Republic of Cuba

As of 2011, the Cuban economy has been undergoing a wide-ranging transformation process, marked by need to loosen socialist policies and the desire for firm political control. Limited economic reforms have been incrementally implemented since then, *inter alia* to allow private ownership and sale of real estate and new vehicles and to open some retail sectors to private entrepreneurship initiatives. Since 2011, Cuba's GDP has grown at steady rates between 1-3% year-on-year (*source*: www.cia.gov), with an estimated decrease of 0.9 % in 2016 (*source:* www.tradingeconomics.com). The country's prospects have been slightly reinvigorated further to the restoration of the diplomatic relations with the United States in 2015.

After writing-off the historic debt of the Republic of Cuba in 2013, the Issuer re-affirmed its support and intention to contribute to the country's economic and social development once with the execution, on 24 June 2016, of the Agreement on Cooperation in Organising Financing between the Issuer and the Central Bank of Cuba (CBC). Under the terms of the Agreement, the parties also express their intention to improve the efficiency and the level of participation in projects and sectors that are of particular interest for the Republic of Cuba.

For 2015-2018, the Issuer has completed seven trade finance deals in the amount of EUR 21.7 million, including IRUs, in favour of KBC Bank N.V. supporting export of Cuban cane raw sugar to Republic of Belarus.

Romania

Romania joined the European Union in 2007. As in many other countries in the region, external imbalances had been high ahead of the financial crisis of 2008/2009, which required macroeconomic adjustment and IMF/EU support in the aftermath of the crisis. During the recent years, these imbalances were adjusted and structural reforms implemented. Thus, Romania was able to improve its competitiveness and export capacity over recent years. After the Euro zone crisis, Romania's GDP steadily increased by 3.4% in 2013 and by 2.8% in 2014, year-on-year, strongly relying on export dynamics. Real GDP growth in 2015 was of 4%, its highest growth rate since 2008, while in 2016 was of 4.8 and in 2017 it is estimated to have reached 6.7 %, a new post-crisis peak (*source*: Country Report Romania, 2018 European Semester, European Commission).

Romania recorded strong economic growth in 2017, with record low unemployment and an improving financial sector. Private consumption boosted by fiscal stimulus and wage increases led the strong growth, while investment lagged and structural reforms slowed. Public investment fell to a multi-year low in percent of GDP with a low absorption of EU funds. (*source*: IMF Country Report, 2018).

The general government deficit decreased from 0.8 % of GDP in 2015 to 3 % of GDP in 2016 and is projected to remain to 3 % in 2017 and to further decrease to 3.9 % in 2018. The structural deficit is projected to have widened from 2.2% in 2016 to around 3.3% in 2017 and to reach 4.3% in 2018, above its medium-term objective. The current account deficit has widened since 2014, deteriorating from -0.6% of GDP in 2015 to -2.3% of GDP in 2016 and -

3.1% in 2017, with a surge in imports due to domestic demand and is expected to widen to 3.2% of GDP in 2018 (*source*: Country Report Romania, 2018 European Semester, European Commission).

Romania benefits of a limited negative impact stemming from the Ukraine-Russia conflict and Western sanctions (due to low trade and financial links and the natural gas consumption being mainly covered by domestic production). International rating agencies recognize the country's quite stable financial position, thus Romania is rated BBB- with a stable outlook by S&P, Baa3 with a stable outlook by Moody's and BBB- with a stable outlook by Fitch.

Romania is one of the Member States in which the Issuer's activity has continually increased as of its re-launch at the end of 2012 – beginning of 2013. In 2015, the Romanian direction of the Issuer's activities gained a new momentum. The Issuer has been consistently increasing the volume of investments in Romania and regularly presents its financial products and services to local businesses. Since its relaunch in 2012, and as of the date of this Offering Circular, the Issuer signed loan agreements with Romanian companies amount to more than EUR 50 million. In October 2015, the Issuer successfully placed its debut bond issue on the Bucharest Stock Exchange in the amount of RON 111 million. In relation to this placement, the Romanian Stockbrokers' Association awarded the Issuer for contribution to the development of the country's corporate bonds market. The debut issue was followed by a second successful RON 300 million bond issue in September 2016 and by a two tranches issue in September 2017, *i.e.* a RON 300 million tranche and, respectively, a EUR 60 million tranche.

In 2018 the Issuer participated in the subordinated bond issue of Banca Transilvania, the Issuer took in a position EUR 10 million share of the issue through its brokerage agent BRD-Groupe Societe Generale S.A.

Eximbank Romania, the export-import bank of Romania, is a party to the Multilateral Memorandum on Cooperation concluded between the Issuer and a number of export credit agencies in Member States, whereby the parties agree that the Issuer will act as a bridging financing institution, while the ECAs will provide insurance coverage in relation to projects carried out in cooperation by Member States.

In Romania, the Issuer intends to focus its investment efforts on areas that support the social sector, especially health, agriculture, tourism, manufacturing, trade, development of small and medium-sized enterprises, infrastructure, energy and other projects that may arise during the implementation of its development strategy.

Other recent activities in Romania include the execution of an ISDA Master Agreement with Banca Transilvania, in October 2015.

In 2017, the Issuer implemented a pilot deal with the B&N Bank (PJSC) by providing a short-term targeted trade related loan (TRL) for the supply of chemical additives from the Russian Federation to Romania. The volume of loan is of EUR 2.25 million, with a one-year repayment term.

Russian Federation

The Russian economy has witnessed a dramatic boom in the 2000s due to the surging commodity prices and spare capacities. As a result, it became the sixth largest economy in the world by purchasing power parity. However, the sharp drop in GDP by more than 7.8% during the financial crisis of 2008/2009 showed the high vulnerability of the Russian economy to external shocks and its overly high dependency on volatile commodity prices. Resurging oil prices have been a major factor of the recovery since 2010, while low investment/weak business climate, low spare labour force and lack of free capacities have hampered growth rates to return to pre-crisis levels. Even before the current geopolitical turbulences between the West and Russia, the Russian economy has substantially cooled down, as growth rates in 2012 fell to 3.4%, in 2013 to 1.3% and in 2014 to 0.6%. In 2015, the dual external shock from oil prices and sanctions from the international community triggered the contraction of Russian economy to an expected 3.8%.

The real GDP of the Russian Federation has contracted by -0.2% in 2016, followed by an expected growth in GDP of up to 1.5% in 2017 and up to 1.7% in 2018 (source: IMF) as real wages and credit growth fall, and private consumption declines. The stand-off with the West and economic sanctions from the West on Russia has led to further negative developments including higher capital outflow, weaker currency and negative investment dynamics during 2014, which have continued during 2015 – the year in which Russia started facing a recession period, with mild recovery prospects for 2016 (*source*: World Bank).

The steep decline in oil prices and international sanctions on Russia led to severe pressure on the RUB and particularly triggered a surge in the country's inflation. The authorities took steps to stabilize the financial system and the economy. The CBR allowed the exchange rate to float, tightened monetary policy significantly and expanded its FX liquidity facilities. The government introduced an anti-crisis plan, including a 2 percent of GDP bank capital support program, and revised its 2015 budget to reallocate spending to priority sectors (*source*: IMF). Russia is rated BBB- with a stable outlook by S&P, Ba1 with a positive outlook by Moody's and BBB- with a positive outlook by Fitch.

On the other side, the Russian Federation is part of the consistently expanding free trade zone within the Eurasian Economic Union. After Vietnam acceded to the free trade zone in May 2015, trade activities between Russia and Vietnam gained a new impetus and are expected to increase significantly.

The Issuer's most recent activities in the Russian Federation include loans to customers active in wholesale and retail trade; repair of motor vehicles, manufacturing, transport and warehousing. During 2014 and 2015, the Issuer also successfully completed four issues of 10-year bonds (subject however, to the Issuer's put option, exercisable in accordance with the programme documentation and the relevant terms and conditions of each placement), in the aggregate amount of RUB 14 billion, admitted to trading on the Moscow Exchange. In March 2016, the Issuer registered a RUB 100 billion programme of exchange-traded bonds with the Moscow Exchange – the first of its kind by an international financial institution in the Russian Federation. In June 2017 the Issuer successfully placed a bond issue in the amount of RUB 10 billion (approx. EUR 156 million), issued under the earlier registered programme of exchange-traded bonds on Moscow Exchange.

In 2015, the Issuer has also concluded various treasury agreements and correspondent banking agreements with banks in Russian Federation, including: ING BANK (EURASIA), Gazprombank, Credit Bank of Moscow, Transcapitalbank, Expobank, Industrial and Commercial Bank of China (Moscow), Sberbank, Bank Zenit, UniCredit Bank, IBEC (IFI based in Russian Federation) and Rosbank.

For 2015-2018the Issuer has issued 33 Russia related trade finance deals for EUR 99.27 million including IRUs, banking guarantees and TRLs.

Slovak Republic

The Slovak economy remains among the best performing European economies. The Slovak Republic ranks 39rd among the world's most attractive countries for doing business (*source*: The World Bank 2018 Doing Business Report). Based on solid domestic demand, fuelled by decent real wage and employment growth, GDP in the Slovak Republic decreased by 3.3% in 2016, and is projected to have slightly increased by 3.4% in 2017 and to further increase to 4% in 2018. The Slovak Republic remains a regional leader in key macroeconomic indicators and political stability, although losing to its neighbours in attractiveness for doing business by such positions as fiscal system, labour market and barriers to entry and the specific market structure in certain professional services and network industries (*source:* Country Report Slovakia, 2018 European Semester, European Commission).

The government deficit fell to 2.2% of GDP in 2016 and is projected to have declined to 1.6% in 2017, supported mainly by strong VAT and labour tax revenues due to robust private consumption and improved labour market conditions. The favourable economic environment will also support the revenue consolidation planned for 2018. (*source:* Country Report Slovakia, 2018 European Semester, European Commission).

The Slovak Republic receives high credit ratings from major rating agencies which puts this country at the top of the rating ladder among comparable CEE countries. Slovak sovereign rating stands high at A + with a stable outlook (S&P), A2 with a positive outlook (Moody's), and A+ with a stable outlook (Fitch).

The Slovak Republic is the first EU member state in which the Issuer completed the placement of bonds on the capital markets, with the first issue in the amount of EUR 30,000,000 having been successfully finalized in October 2014. Also, the first regional office opened by the Issuer, aiming to increase the quality of the Issuer's services in EU member states, is based in the Slovak Republic.

For 2015-2018the Issuer has issued six trade finance deals supporting export and import with Slovak Republic for EUR 3.63 million including IRUs and TRLs. Also, the Issuer's portfolio of loans to customers in the Slovak Republic, amounts to EUR 20 million.

Vietnam

Vietnam holds the position of one of Southwest Asia's leaders in economic development, outstripping South Korea (estimated GDP growth of 2.8% in 2015 according to IMF) and only slightly falling behind China (estimated GDP growth of 6.9% in 2015 according to IMF), with its estimated GDP growth reaching 6.7% at the end of 2015, 6.2 % in 2016, 6.8 % in 2017 and 6.6% in 2018 (*source*: IMF).

Growth is improving gradually, underpinned by robust exports and foreign direct investment, while domestic activity remains subdued.

During the past years, the Vietnamese Government has paid more attention to improving the business environment, having issued two resolutions in March 2014 and March 2015, setting out concrete actions to remove obstacles to doing business in Vietnam, with a goal of achieving a business environment comparable to the average of the ASEAN-6 group (*source*: World Bank).

The current account balance registered a surplus of 4.9% of GDP in 2014 and is expected to have remained positive at 2.9% of GDP in 2016. Projections show a decrease in the current account balance at 2.5 % and 2.1 % for 2017 and 2018, respectively (*source*: IMF 2018 Article IV Consultation).

Vietnam is rated BB- with a stable outlook by S&P, Ba3 with a stable outlook by Moody's and BB with a stable outlook by Fitch.

As of 30 June 2018, 15.42% of the loans (in terms of amount thereof) extended to banks by the Issuer were granted to Vietnam-based banks. No corporate loans were granted to entities from Vietnam, as of 30 June 2018.

In the end of 2016 the Issuer provided trade related loan to LOCKO-Bank (Russia) for USD1 million under Trade Finance Support Programme as support of export from Vietnam to Russian Federation of food products.

MEMBERS

The Issuer currently has nine Member States, namely: Czech Republic, Hungary, Mongolia, Republic of Bulgaria, Republic of Cuba, Romania, Russian Federation, Slovak Republic and Socialist Republic of Vietnam. The Issuer benefits from the high geographical diversification of its Member States. Their territories and, therefore, the Issuer's relevant geographic market, cumulates approx. 19.6 million square km and a total population of more than 300 million people.

Hungary re-joined the Issuer in 2015, after having previously decided to terminate its membership in the Issuer in 2000. The Issuer's Council approved Hungary's request to re-join the Issuer in November 2014 and Hungary finalized all necessary procedures and ratified its membership in the Issuer in May 2015.

The Government of Mongolia made an additional contribution of EUR 1,909 thousand to the Issuer's equity on 27 December 2017.

On 12 July 2018, the Government of Romania made a contribution of EUR 4,0 million to the Issuer's paid-in capital. As a result, the paid-in capital of the International Investment Bank amounted to EUR 318,96 million, and Romania increased its share in the paid-in capital to 7.04%.

As of 10 August 2018, the structure of the Issuer's paid-in capital is the following: the combined share of EU Member States (the Czech Republic, Slovakia, Hungary, Romania and Bulgaria) in the Issuer's paid-in capital reached 49.07%, Cuba's share is at 1.68% and the share of Asian Members of the Issuer (Vietnam and Mongolia) is at 2.21%. Russia's share in the Issuer's paid-in capital is 47.04%.

After the entry into force of the Protocol, the quotas of Member States in the authorised capital of the Issuer are as follows:

Member States	*Quotas in the authorised charter capital (EUR)*	*Shares in the paid-in charter capital (EUR)*
Republic of Bulgaria	123,000,000.00	42,203,226.32

Hungary	121,400,000.00	40,000,000.00
Socialist Republic of Vietnam	4,700,000.00	3,669,274.56
Republic of Cuba	23,400,000.00	5,360,773.37
Mongolia	6,200,000.00	3,393,184.85
Russian Federation	580,700,000.00	150,025,792.59
Romania	76,700,000.00	22,453,958.51
Slovak Republic	62,800,000.00	21,481,113.06
Czech Republic	125,600,000.00	30,374,957.01
Total	**1,124,500,000.00**	**318,962,280.27**

The unallocated portion of the Issuer's authorised charter capital is EUR 875,500,000.00.

The table below shows the paid-in capital structure of the Issuer as of 10 August 2018:

Member States	***Share in the Issuer´s paid-in capital***	
	(EUR million)	*%*
EU Member States		
Czech Republic	30.37	9.52
Hungary	40.0	12.54
Republic of Bulgaria	42.2	13.23
Romania	22.45	7.04
Slovak Republic	21.48	6.74
Total contribution by EU Member States	156.5	49.07
Non-EU Member States		
Mongolia	3.39	1.06
Republic of Cuba	5.36	1.68
Russian Federation	150.03	47.04
Socialist Republic of Vietnam	3.67	1.15
Total contribution by non-EU Member States	162.45	50.93
Total contribution of Member States	**318.96**	**100.0**

Source: The Group's management report.

MANAGEMENT AND GOVERNANCE

General

The new Statutory Documents that entered into force on 18 August 2018 introduced a new governance structure. In this regard, two new governing bodies, i.e., the Board of Governors and the Board of Directors, are to be formed in the nearest future.

The Issuer's governing bodies are the following:

- the Board of Governors, which is the supreme collective governing body of the Issuer;

- the Board of Directors, which is the Issuer's collective governing body responsible for the general management and oversight of the Issuer's operations, reporting to the to the Board of Governors; and

- the Management Board, which is the Issuer's executive body, reporting to the Board of Directors and the Board of Governors.

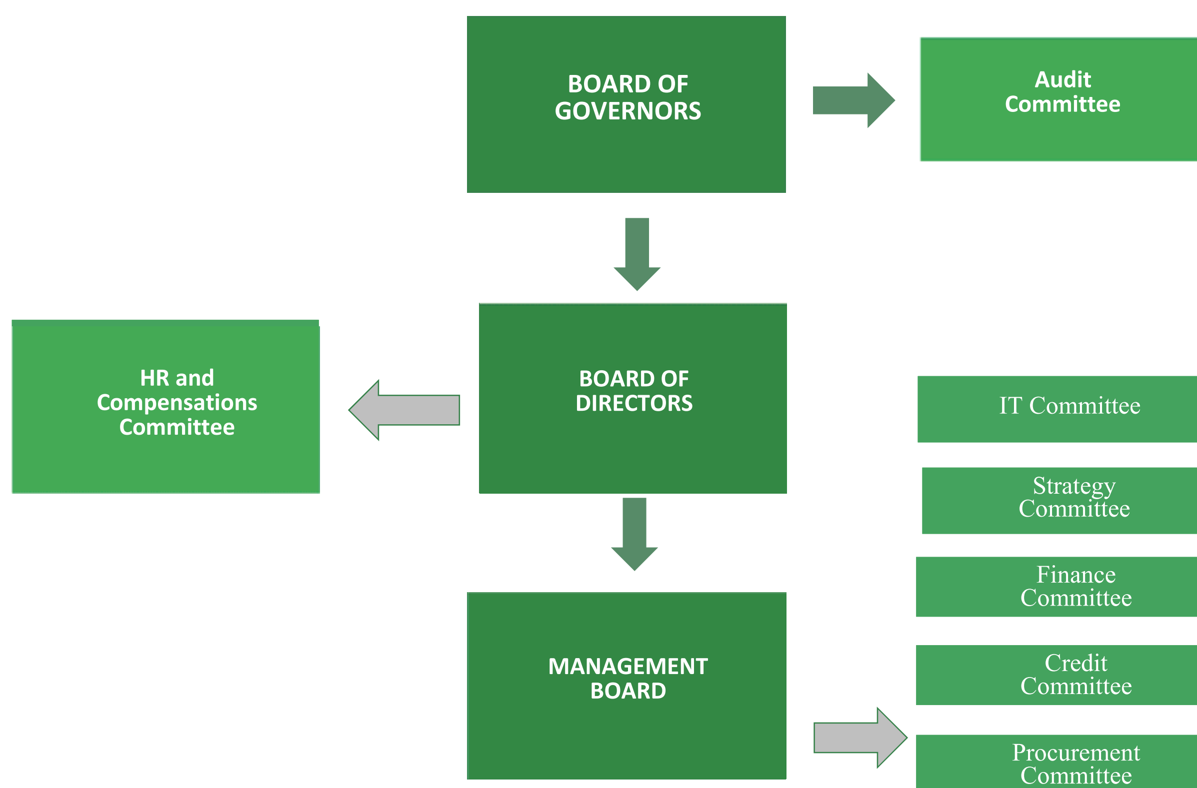
The new governance structure of the Issuer is based on the principles of transparency, accountability, responsibility and openness.

The Audit Committee is a collective governing body of the Issuer composed of Member States' representatives and responsible for auditing the Issuer's activities. The Audit Committee reports to the Board of Governors and the Board of Directors.

The HR and Compensations Committee is an advisory collective body under the Board of Directors, which main function is to control observance of staff-related policies, rules and procedures by the Issuer.

In line with best corporate governance practices of other international development banks, the Issuer has established various specialised collective bodies under Management Board, including the Finance Committee, the Credit Committee, the Strategy Committee (under which a Coordination Sub-Committee on transition to new corporate governance structure was created), the Procurement Committee, the IT Committee and various tasks groups.

According to the new Statutory Documents, the governance structure of the Issuer is presented below:



The Board of Governors

The Board of Governors is the supreme collective governing body of the Issuer. The Board of Governors meets when necessary, but not less than once a year. The main powers of the Board of Governors include making resolutions on the admission of new members and the amendments to the Statutory Documents, opening of branches and representative offices by the Issuer in Member States, as well as in other countries. The Board of Governors is also responsible for the determination of the general directions of the Issuer's operations, the Issuer's development strategy, change of the size of the Issuer's authorized capital and paid-in capital, approval of the Issuer's Annual report, balance sheet and allocation of profits, the appointment of the Chairperson and the members of the Management Board and the Audit Committee.

Each Member of the Issuer appoints one representative and his/her deputy to the Board of Governors. A Governor may nominate a temporary deputy Governor.

As of 1 August 2018, Hungary and Mongolia have already appointed their representatives to the Issuer`s Board of Governors. The Hungarian Government appointed, the Deputy Prime-minister, Minister of Finance of Hungary to the Board of Governors and State Secretary for Financial Policy Affaires of the Ministry of Finance as the Deputy Governor (Government Resolution No. 1258/2015. (IV. 24.)). The Government of Mongolia appointed, the Minister of Finance of Mongolia to the position of the Governor, and the President of the Bank of Mongolia as the Deputy Governor (Decision No. 359, 27 December 2017). Other Members are in the process of implementing internal procedures on the appointment of their representatives to the Board of Governors and the Board of Directors.

The Board of Directors

The Board of Directors is the Issuer's collective governing body responsible for the general management and oversight of the Issuer's operations. The Board of Directors meets as often as required to manage the Issuer's affairs, but not less than once every quarter.

The Board of Directors makes decisions on credit and investment operations in the scope of its authorities, approves the key regulations, defining various aspects of the Issuer's operations, including its credit, financial, accounting, tariff, asset and liability management, risk management policies (including establishing risk appetite), the Issuer's HR Policy, supports the activities of the Board of Governors.

The Board of Directors consists of representatives of the Issuer's Members. Each Member appoints one Director and his/her deputy to the Board of Directors. A Director may nominate a temporary deputy Director. Directors are appointed for a term of three years and may be reappointed upon the expiration of said term.

The Management Board

The Management Board is the executive body of the Issuer reporting to the Board of Directors and the Board of Governors. The Management Board’s main task is to supervise the Issuer’s operations in accordance with the new Statutory Documents, resolutions of the Board of Governors and Board of Directors. The Management Board also implements the Issuer's credit, financial, accounting, tariff, asset and liability management, and risk management policies, makes decisions on credit and investment operations in the scope of its authorities, organizes work aimed at raising and allocating available funds, adopts decisions to issue bonds, prepares necessary materials and proposals to be considered by the Board of Governors and the Board of Directors, builds and uses the Issuer's business connections and correspondent banking relationships with other banks and organisations.
The Management Board consists of the Chairperson of the Management Board and his/her deputies appointed by the Board of Governors for a five-year term, generally from among citizens of the Member States.

The table below contains a list of current members of the Issuer’s Board (and future members of the Management Board, after the implementation and relevant appointments in accordance with the new Statutory Documents):

Nikolay Kosov, Russia

Function:	Chairperson of the Board (Management Board since 18 August, 2018), as of September 2012
Education, practice, other relevant information:	Mr. Kosov graduated from the Moscow State Institute of International Relations majoring in Foreign Affairs. In 2000, he graduated from the Finance Academy affiliated to the Government of the Russian Federation majoring in World Economy. He holds a PhD in Economics. 1977-1992 – Assistant, Senior Assistant, Attaché, the Third, Second and then the First Secretary, Counsellor of the USSR Embassy, counsellor at the Ministry of Foreign Affairs of the USSR. 1992-1993 – Assistant to the Vice President of the Russian Federation in the Administration of the President of the Russian Federation. 1993-1998 – First Deputy, then CEO of Automobile Russian Alliance plc., member of the Board of Directors of AutoVaz OJSC. 1998-2007 – First Deputy of the Chairman, state bank for development and external economic activity (Vnesheconombank). 2007–2012 – Member of the Board of Vnesheconombank); First Deputy of the Chairman of Vnesheconombank. Since September 2012 – Chairman of the Board, International Investment Bank.

For his contribution to the development of the financial banking system of the Russian Federation and for his longstanding conscientious work, Mr. Kosov was awarded with the 4th class of the Order "For Merit to the Fatherland", Order of Merit, medals of Order of "For Merit to the Fatherland" (1st and 2nd class) and the Order of Friendship.

Alexandru Florescu, Romania

Function: Deputy Chairperson of the Board (Management Board since 18 August, 2018), as of January 2016; coordinates the Finance section.

Education, practice, other relevant information: Mr. Florescu graduated with merits the International Economic Relations and Finance, Insurance, Banking and Capital Markets faculties within the Academy of Economic Studies (Romania) in September 2003.

2006–2010 and 2012–2013 – Senior Expert at the Ministry of Public Finance, DG Treasury and Public Debt (Romania), covering mainly Romania's participation in several IFIs and financial markets issues. Member of EFC sub-committee for IMF and related issues and EFC/EPC Joint Working Group on financial aspects related to international financing in the climate change area.

2010–2011 – Adviser to the State Secretary responsible with the coordination of Treasury and Public Debt, PPP and Management of European Funds.

2014 – Post-University degree in Economics of European Integration from the Academy of Economic Studies.

September 2013–December 2015 – Head of Strategic Development and Analysis Department, International Investment Bank.

Since January 2016 – Deputy Chairman of the Board at the International Investment Bank, representative of Romania.

Rumyana Laleva Kyuchukova, Republic of Bulgaria

Function: Deputy Chairperson of the Board (Management Board since 18 August, 2018), as of February 2016; coordinates the Risk section.

Education, practice, other relevant information: Mrs. Kyuchukova finished University for National and World Economy – International Economic Relations and is a Master of Business Administration. Studied in City University of Seattle (2000-2002), where she gained an MBA degree in Executive Management.

1998–2000 – Adviser to CEO and Head of internal audit, Mobiltel AD (Bulgaria).

2000–2002 – CEO of Mobiltel AD (Bulgaria)

2003–2004 – General manager and owner of Telecom Consulting Ltd. (Bulgaria)

2005–2011 – Senior Adviser to the ED and member of the Board of the World Bank

2012–2015 – Consultant in finance and investments.

Since February 2016 — Deputy Chairman of the Board, International Investment Bank.

Jozef Kollár, Slovak Republic

Function:	Deputy Chairperson of the Board (Management Board since 18 August, 2018), as of March 2016; coordinates theTreasury and Investment Attraction Section.
Education, practice, other relevant information:	Mr. Kollár studied in University of Economics (Bratislava, Slovakia) in 1979 – 1983 where he gained master of economics and graduated with honors. From 1983 – 1990 studied in the Slovak Academy of Sciences from where he graduated with a Ph.D. degree in economics. In summer 1993 studied in University of Wisconsin, U.S.A. (Graduate School of Banking), in summer 1994 and 1995 in Oklahoma City University, U.S.A. (Jack T. Conn Graduate School of Community Banking) and in summer 1996 in AOTS Association for Overseas Technical Scholarship, Yokohama, Japan. 1983–1990 – Macroeconomics and Strategy Planning Analyst at the Slovak Academy of Sciences (Bratislava, Slovakia). 1990–1991 – Head of Department of Economics and Foreign Exchange Analysis at the State Bank of Czechoslovakia (Bratislava, Slovakia). 1991–2006 – Member of the Board (1993–1997), Deputy Chairman of the Board (1997–2000), Chairman of the Board and CEO (2000–2006) at Volksbank AG, (Bratislava, Slovakia). 2008–June 2010 – Owner of JK Advisory s.r.o (financial consulting in real estate development and transport infrastructure in Slovakia). July 2010–February 2016 – Member of the Parliament at the National Council of the Slovak Republic. Since March 2016 — Deputy Chairman of the Board, International Investment Bank.

Georgy Potapov, Russia

Function:	Deputy Chairperson of the Board (Management Board since 18 August, 2018), since July 2018; coordinates the Strategy section.
Education, practice, other relevant information:	1997 - Moscow State Institute of International Relations (University), Specialist in international relations with knowledge of foreign languages 2008 - Financial University under the Government of the Russian Federation, Banking and Finance, Diploma in Economics 1997-2005 - Desk officer, Attache, Third Secretary, Second Secretary, MFA of Russia (including Russian Embassy in the Kingdom of Thailand). 2005-2006 - Assistant to Director General, Technabexport, OJSC (ROSATOM, OJSC).

2007-2008 - Head of Protocol, Bazovyyi Element Company, LLC.

2006-2009 - Adviser to Director General, Universal Service System 'Executive Service', CJSC.

2009-2013 - Head of Administration, Head of Document Control Department, 'AB 'Russia', OJSC.

2012 – 2018 - Adviser to the Chairman of the Board, Director of International Financial Integration and Multilateral Cooperation Department, Head of Strategy Section, Policy Director, International Investment Bank.

Since July 2018 - Deputy Chairman of the Board, International Investment Bank.

Audit Committee

The Audit Committee is appointed by the Board of Governors and consists of the Chairperson of the Audit Committee and its members. The Audit Committee is responsible for auditing the Issuer's operations which include review of the implementation of resolutions adopted by the Board of Governors and the Board of Directors, annual reports, cash and property, records, reports and documents of the Issuer and its branches, representative offices, and subsidiaries.

HR and Compensations Committee

The HR and Compensations Committee is established under the Board of Directors by resolution of the Board of Governors. This is an advisory collective body, the main function of which is to control the observance of staff-related policies, rules and procedures at the Issuer, and to produce recommendations on improving its HR practices.

REGULATORY CAPITAL

The approval of capital adequacy ratios applicable to the Issuer is one of the prerogatives of the Board of Directors. As of September 2013, the Council established a 25% minimum capital adequacy ratio, representing the percentage of the Issuer's capital to its risks-weighted assets. Starting with 2013, the Issuer's capital adequacy ratio is computed in accordance with the methodology set forth under the Revised Framework for International Convergence of Capital Measurement and Capital Standards ("**Basel II**").

The 25% minimum capital adequacy ratio approved by the Council is 21 percentage points above the Basel II 4% requirement applicable to tier I capital and 17 percentage points above the Basel II 8% requirement applicable when accounting tier II capital also.

In addition to the paid-in capital (*i.e.*, monetary contributions of the Member States), the regulatory capital of the Issuer also includes retained profits, reserves and other adjustments and components.

The following table shows the composition of the Issuer's capital position as of 31 December 2015, 31 December 2016, 31 December 2017 and, respectively, 30 June 2017 and 30 June 2018*:*

(EUR million)	31 December 2015	31 December 2016	31 December 2017	30 June 2017	30 June 2018
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Tier 1 capital..	366.0	378.0	380.75	378.8	351.2
Tier 2 capital..	29.8	11.4	13.99	11.7	9.26
Total regulatory capital........................	395.8	389.15	394.73	390.5	360.46
Total risk-weighted assets	686.1	727.28	1,042.87	925.6	1,086.06
Total capital expressed as a percentage of risk-weighted assets, %..................	57.78%	53.55%	37.85%	42.2%	33.19%
Total tier 1 capital expressed as a percentage of risk-weighted assets, %.	53.3%	51.98%	36.51%	40.9%	32.34%

Source: The Financial Statements.

The Issuer's believes that its capital adequacy target of 25% allows it to position above most requirements under the third Basel accord (Basel III) and, therefore does not intend to implement the proposals thereunder.

RISK MANAGEMENT

The Issuer's risk management strategy, approved by the Council in September 2013, sets forth the main principles governing the Issuer's risk management policy, as well as the risk management system, the key specificities of the Issuer's risk profile, the general system of risk limits and the rules governing the definition of the Issuer's risk appetite. A new risk management policy will be approved at the first meeting of the Board of Directors, as consequence of the entry into force of the Protocol.

In further developing its risk management system, the Issuer benefits from its membership in the Global Emerging Markets (GEMs) Risk Database Consortium, a cooperation forum aimed at sharing expertise, analysing information and creating a comprehensive database on credit risks for multilateral development banks and international financial institutions.

Main principles

The Issuer's risk management policy is based on the following governing principles:

- the Issuer's profitability is the result of the risk/return trade-off reflected in the Issuer's risk appetite;
- application of the risk management controls at all levels of internal governance and in all processes;
- continuous improvement of the risk management eco-system (skills, tools, systems, processes) following the best market practices; and
- adoption of BASEL II standardized approach with elements of Basel III (liquidity coverage ratio, net stable funding ratio, leverage ratio) since 2014.

Description of the risk management system

The Issuer's risk management system is based on consistent identification of risks, careful assessment and permanent monitoring of all risk-factors. Vertical system of risk management is one of the key points of the risk management policy, with the risk being identified, assessed and controlled at all governance levels starting from the Board of Governors, the Board of Directors, the Management Board and going down to the level of the Issuer's personnel.

The risk management system is structured on three lines of defence, as follows:

- *Risk taking*: The risks are identified, assessed and controlled across all Issuer's products, activities, processes and systems;

- *Risk management*: The independent Risk Management Department is responsible for the overall risk identification, measurement, control and monitoring of risks. Another key point of its mission is to calculate capital adequacy and regular allocation of capital for different types of risk;
- *Risk assurance*: The Internal Control Department and the Audit Committee provide independent assessment and review of the risk management system.

Risk organization and governance

The chart below summarizes the main risk management duties of the Board of Governors, the Board of Directors, the Management Board, the Financial Committee, the Credit Committee, the Risk Management Department, the Internal Audit Department, the Audit Committee and the other departments of the Issuer:

Body	***Main responsibilities***
Board of Governors	Determining the general directions of the Issuer's operations and approve the Issuer's development strategy
Board of Directors	• Approval of risk management policies • Determining the Issuer's risk appetite for each year • Overall organization of the Issuer's risk management system (including related responsibilities and tasks)
Chairperson of the Management Board	• approving the Issuer's rules and regulations regarding the process for conducting credit and banking operations in accordance with the principles determined by the Board of Governors and the Board of Directors
Management Board	• implementing the Issuer's credit, financial, accounting, tariff, asset and liability management, and risk management policies, which have been approved by the Board of Directors • preparing necessary materials and proposals to be considered by the Board of Governors and the Board of Directors (including risk management related materials and proposals)
Finance Committee	• Providing methodological guidance • Review of limits for specific risk categories (i.e., country, market, liquidity) • Management of assets and liabilities • Liquidity management
Credit Committee	• Management of loan portfolio • Review of credit risks limits • Approval of new credit operations
Risk Management Department	• Identification, assessment, measurement, reporting and monitoring of credit, market, operational and • Liquidity risks • Management of risks limits • Development of risks policies

	• Assessment of counterparties
Internal Audit Department and Audit Committee	• Review of the efficiency of the risk management framework • Review of the risk management process, tools and organization
Other Departments	• Monitoring and controlling risk limits • Active management of operational risks

Risk management process

At the level of the Issuer, the risk management process generally entails the following stages:

- *Risk identification*: Identification of risks at all governance levels
- *Risk assessment*: Risks are evaluated in terms of causes, circumstances of their occurrence, their negative effects and the probability of their outcome. Potential losses and the respective risk's impact in the Issuer's monthly capital adequacy ratio are calculated and accounted for when deciding on whether to accept a particular risk;
- *Limitation of risk exposure*: Based on the results of the risk assessment stage, the Issuer's Risk Management Department proposes the establishment of general limits, limits restricting credit, market and liquidity risks, which are subsequently approved by the Management Board;
- *Risk monitoring and control*: Risk indicators are monitored on a regular basis in order to ensure that the approved limits are not exceeded, as well as to identify the most effective methods of reaction to the materialized and potential risks;
- *Risk reporting*: The Risk Management Department regularly reports to the Financial Committee, the Credit Committee, and the Management Board with respect to risk levels and their potential negative impact on the Issuer's operations.

Risk profile

The risk profile of the Issuer is defined by several key considerations particularly related to the Issuer's mission, its strategic goals and the specificities of the Issuer's business, mainly including the following:

- The Issuer main goal is to develop into a modern multilateral development bank, its mission being particularly focused on the promotion of social and economic development, growth of well-being of the population, and economic cooperation, of the Member States;
- The Issuer's core activities are financed through its equity capital base and the funds raised from the Member States' or international capital markets;
- The Issuer focuses on acting as a lender in interbank and syndicated interbank loans aiming to support SMEs, as well as project investment loans; and
- The Issuer's operations with new partners and clients are preceded by due diligence investigations carried out by the Issuer in order to assess its partners'/ clients' legal status.

Risk appetite

In accordance with the new Statutory Documents, the Board of Directors determines the Issuer's risk appetite. Risk Appetite determines how much risk (measured by the allocated capital) the Issuer is willing to accept taking into account the risk characteristics of the Issuer's assets and liabilities, as well as its ongoing and prospective operations. During the process, the Board of Directors assesses the Issuer's willingness to assume a certain risk-carrying operation against the amount of own funds or liquidity the Issuer is willing to expose to risk in the implementation of the respective operation and the current and anticipated situation of the following parameters:

- the Member States' expectations on profitability;
- international regulatory standards;
- volume of transactions;
- structure of significant risks;
- level of aggregate capital.

Risk appetite is a key indicator, shaping the risks limits applicable at the level of the Issuer, and defining the thresholds for key risk management indicators relevant to the Issuer.

Risks monitoring, control and reporting

In accordance with its internal procedures, the Issuer has established a system of limits based on which it assesses the creditworthiness of third parties *e.g.*, partners and clients, and evaluates potential financial transactions. This system is subject to annual review by the Issuer.

As part of the lending activity analysis, risks associated with the Issuer's asset-based lending operations are continuously monitored and the fair value of the pledged items is regularly determined. During the monitoring period, specialists appointed by the Issuer perform on-site visits to certain borrowers, in order to verify the implementation of the financed projects and assess risks of loans impairment.

The Issuer also performs daily monitoring of compliance of operations with limits applicable to cash and equity transactions, as well as with structural limits included in key risk ratios and stop-loss limits. Regular reports on the status of risks are submitted to the Issuer's management on a regular basis.

The diagram below describes the roles of the Board of Directors and, respectively, the Management Board in the establishment of key risk limits:

<table>
<tr><td rowspan="2">Board of Directors</td><td colspan="2">Strategic yearly limits</td><td colspan="2">Risk appetite indicators for one year</td></tr>
<tr><td colspan="2">• Capital adequacy ratio (at least 25%)
• Limit of exposure to one counterparty or group of related counterparties (up to 25% of the Issuer's equity)
• Liquidity coverage ratio (at least 100%)
• Net stable funding ratio (at least 100%)
• Financial leverage (up to 250%)</td><td colspan="2">• Risk appetite levels (capital allocation to credit, market and operational risks)
• Risk appetite indicators (e.g., liquidity, portfolio, quality, rating)</td></tr>
<tr><td rowspan="2">Management Board</td><td>Individual treasury limits</td><td colspan="2">Individual loan limits</td><td>Systemic limits</td></tr>
<tr><td>Permitted operations:
• NOSTRO
• Interbank lending
• Forex
• Equity/Bonds
• Other</td><td colspan="2">• Corporate clients
• Financial institutions</td><td>• Credit risk limits
• Market risk limits
• Operational risk limits
• Country limits
• Sector limits
• Other limits</td></tr>
</table>

The following table shows key risk parameters of the Issuer and applicable limits, as of 31 December 2015 and 31 December 2016, 31 December 2017 and, respectively, as of 30 June 2017 and 30 June 2018:

Indicator	31 December 2015	31 December 2016	31 December 2017	30 June 2017	30 June 2018	Limit
Capital adequacy ratio (*Basel II methodology*)	57.67%	53.55%	37.85%	42.19%	33.19%	not less than 25%
Liquidity coverage ratio (LCR) (*Basel II methodology*)	319.5%	476.0%	381.5%	261.0%	145.2%	not less than 100%
Net Stable Funding Ratio (NSFR) (*Basel II methodology*)	118.0%[1]	112.1%	112.7%	104.4%	113.3%	not less than 100%
Financial leverage	104.3%	126.1%	177.4%	156.2%	212.5%	up to 250%

Source: The Group.

[1] Technical breach due to reclassifications of securities.

BORROWINGS

The Issuer's borrowings in the form of long-term loans from banks, long-term REPO and debt securities amounted to EUR 666.8 million as of 31 December 2017 compared to EUR 411.9 as of 31 December 2016 and to EUR 321.7 million as of 31 December 2015. As of 30 June 2018, the Issuer's borrowings reached EUR 653 million compared to EUR 533.3 as of 30 June 2017 and to EUR 370.6 million as of 30 June 2016, the increase being principally due to the issuance of bonds in Romania and the Czech Republic.

As part of its strategy to diversify its sources of funding and in order to build its track record as a borrower and issuer on the financial markets of the Member States, as well as the international financial markets, the Issuer intends to continue the attraction of funds through the issuance of bonds, as well as by entering into credit facilities (both bilateral and syndicated) with other financial institutions.

Bond placements

Russian Federation

In spring 2014, the Issuer has registered its first RUB 14 billion (EUR 219.4 million) bond programme with the Central Bank of Russia, after having been recognised as an international financial organisation whose securities are admitted for public placement and circulation in the Russian Federation by the Russian Federation Government Decree No. 732-r of 2 May 2013. The programme documentation provides semi-annual coupon payments and the possibility for the Issuer to benefit from put options with respect to the drawings. As a part of the bond programme with the Central bank of Russia, the Issuer issued four bond series:

- series 01: In April 2014, the Issuer placed an inaugural series 01 RUB denominated bonds in the amount of RUB 2 billion (EUR 31.3 million). The current rate of this bond was set at 0.01% p.a. The bond was fully repurchased under investor put option in October 2017.
- series 02: In April 2015, the Issuer placed series 02 RUB denominated bonds in the amount of RUB 3 billion (EUR 47.0 million). The current rate was set at 9.50% p.a. The amortized value of bond as of 30 June 2018 was EUR 42.1 million.
- series 03: In December 2014, the Issuer placed series 03 RUB denominated bonds in the amount of RUB 4 billion (EUR 62.7 million). The bond was fully repurchased in June 2017 under investor put option after setting 0.01% p.a. interest rate with the purpose of liquidity management. In May 2018 the Issuer held a successful secondary placement of the Series 03 RUB denominated bonds in the amount of 4 billion RUB with interest rate of 7,6% and semi-annual coupon payments. The amortized value of the bond as of 30 June 2018 was EUR 55.2 million.
- series 04: In November 2015, the Issuer placed series 04 RUB denominated bonds in the amount of RUB 5 billion (EUR 78.4 million). In November 2017 the Issuer reviewed the interest rate and the current rate was set at 8.15% p.a. The amortized value of bond as of 30 June 2018 was EUR 69.1 million.

As of March 2016 MOEX, registered a RUB 100 billion (or equivalent in another currency) programme of exchange-traded bonds by the Issuer. The maximum maturity period of the Issuer's bonds within the open-ended programme will be 30 years. Placement will be carried out by public subscription. The Issuer will determine the currency of each issue. Earlier, according to the Russian legislation, only resident issuers of the Russian Federation had the right to issue such bond programmes. However, due to extensive negotiations during 2015 between the Issuer and the representatives of the Bank of Russia, the Moscow Exchange and the National Settlement Depository, a common approach was agreed on in relation to IFIs' access to such bond programmes, the programme registered by the Issuer being the first of its kind in the Russian Federation.

In June 2017, the Issuer successfully placed a new bond issue in the amount of RUB 10 billion (approx. EUR 156 million), issued under the earlier registered programme of exchange-traded bonds on Moscow Exchange. The coupon rate was fixed at 8.75% p.a. The interest will be paid twice a year, with a put option exercisable in two years and nine months. The amortized value of bonds as of 30 June 2018 was EUR 140.5 million.

All RUB-denominated bonds were included in the Lombard List of the Central Bank of Russia.

The final maturity date of the RUB-denominated Bonds is subject to the Issuer's put option, exercisable in accordance with the applicable terms and conditions of the programme documentation and of each individual issue. At the dates of the placements of the RUB-denominated bonds, the Issuer entered into cross-currency interest rate swaps for the purpose of hedging currency risks.

Romania

The Issuer placed RON 111 million (approx. EUR 25 million) of 3-year bonds on the Bucharest Stock Exchange in October 2015, with annual interest payments. The interest rate of the issue, managed by BT Capital Partners S.A. (formerly, BT Securities S.A.), was set at 4.1%. The fully domestic issue attracted demand from Romanian pension and investment funds, as well as investment and insurance companies. In May 2015, the Issuer concluded a sell-buy back transaction for the amount of EUR 7.5 million with the EXIM Bank SR with a maturity of three years. In September 2015, the Issuer signed two total return swap transactions with Credit Suisse London - one denominated in USD, for the amount of 35 million and a maturity of 2.5 years, and the other denominated in EUR for the amount of 25 million and a maturity of three years.

The Issuer returned on the Romanian capital market in September 2016, with a 300 million RON bond issue, successfully placed and admitted to trading on the Bucharest Stock Exchange. The fixed interest rate of the bonds was set at 3.4%, payable in annual arrears.

On September 2017, the Issuer successfully placed additional issue of 300 million RON with a floating coupon rate ROBOR 3M+1.5% and coupon payments made quarterly. At the same time, due to high demand from investors, the Issuer successfully placed 60 million EUR bond with a fixed rate 1.593% paid annually. Both tranches are admitted to trading on the Bucharest Stock Exchange and have 3-year maturity.

Slovakia

On 21 October 2014, the Issuer successfully placed EUR 30 million bonds maturing on 21 October 2019 on the Slovak regulated securities market. The coupon rate was set at 3.5% p.a. and is payable once a year. The Slovak bonds' amortized value amounted to EUR 30.6 million as of 30 June 2018.

Czech Republic

As a part of a diversification of its long-term funding in April 2018 the Issuer executed its debut CZK denominated private placement transaction amounting to CZK 750 million. Listing took place on both Prague and Vienna Stock Exchanges. The 3-year bond issue has a floating rate of PRIBOR 3M + 0,55%. The amortized value of the bond amounted to EUR 28.9 million as of 30 June 2018.

Other instruments

In May 2016, the Issuer concluded its first syndicated term loan facility, in the amount of EUR 60 million. The facility is unsecured, carries a margin of 175 basis points over EURIBOR and has a 2-year tenor with bullet repayment. The facility was repaid in May 2018.

In April 2017 the Issuer completed its inaugural Schuldscheindarlehen (SSD) – a type of traditional privately-placed German debt similar to a bond. The offer was made in multiple tranches with tenor ranging from 3 to 10 years and attracted amongst others German retail banks as well as international institutional investors. The overall volume of the transaction amounted to EUR 23 million.

In August 2017 the Issuer signed off on its debut credit facility in Hungary. The aim of this facility is to support the expansion of the Issuer's portfolio of lending in Hungarian Forint (HUF). The Bank of Hungarian Savings Cooperatives Ltd. (TakarékBank) executed a credit facility up to 4 billion HUF (approx. EUR 13 million) with a tenor of 3 years.

In March 2018 was attracted the first tranche in the volume of USD 12.5 million under the term loan facility executed with New Development Bank. On 15 August 2017, NDB, Eurasian Development Bank and the Issuer signed loan agreements for total amount of up to USD 100 million. Maturity of the facility is 12 years, interest rate 6m Libor + 1.95% p.a.

The Issuer is not in breach of any of its obligations or undertakings under its issued bonds or the loan agreements to which it is a party.

COMPLIANCE

The Issuer endeavours to comply with commonly accepted compliance rules and standards. As of 2018, the Issuer developed and currently has in place a clearly defined policy which includes rules regarding compliance control standards, compliance organization, responsibilities, functions and independence of compliance control, reporting, access to information, training and interaction with departments with relevant areas of responsibility (the "**Compliance Policy**").

The Issuer's structure includes an independent Compliance Department which reports directly to the Chairman of the Management Board and is responsible for identifying, managing and monitoring compliance risks under the Compliance Policy. The main duties of the Compliance Department include:

- development of recommendations for the Issuer's management regarding compliance, and of standards and practices based on the models used by other international financial institutions with respect to the organization and implementation of compliance control;
- development and maintenance of the reporting system regarding compliance risks and disclosure of information to management bodies of the Issuer with respect to compliance risks;
- presentation of conclusions and recommendations to the Issuer's management with respect to the mitigation or elimination of identified compliance risks;
- preparation of recommendations and comments on developed and existing policies, regulations, rules and procedures, and monitoring observance thereof in order to mitigate compliance risks;
- developing and implementing activities to counter prohibited practices (including corruption, coercion, collusion, financing of terrorism, fraud and money laundering); organizing activities aimed at monitoring the use of insider and confidential information, and the identification, evaluation and control of conflicts of interest;
- management of complaints and reports regarding prohibited practices, misconduct (meaning failure by a staff member to observe the rules of conduct and the standards of behavior prescribed by the by-laws and policies of the Issuer) especially about fraudulent and corrupt actions on the part of Issuer`s staff and other relevant third parties;
- investigating facts or suspicions regarding prohibited practices and misconduct;
- developing and implementing procurement rules, and measures to detect, assess and control the ecological risks of the Issuer`s projects, and the Issuer's own activities; and
- reviewing the Issuer's projects in order to detect breaches in performance and maintain compliance rules.

The Issuer does not tolerate any actions related to prohibited practices neither as regards its own operations nor on the part of its employees or partners. Therefore, the Issuer supports international efforts to tackle the aforementioned practices while actively applying international standards for anti-money laundering and combating terrorism financing, corruption and fraud ("**AML/CFT/F/C**") to its activities. In 2015, the Issuer has joined the Uniform Framework for Preventing and Combatting Fraud and Corruption, elaborated by the leading international financial institutions, thus strengthening its internal compliance procedures. The policies of the Compliance Department (anti-money laundering, and combating the financing of terrorism, fraud and corruption, policies and the Issuer's Compliance Policy and Procedure for receiving and handling complaints have been amended in 2016 in order to comply with the Uniform Framework for Preventing and Combatting Fraud and Corruption.

The identification of its counterparties and the performance of related due diligence investigations, followed by continuous monitoring operations, are at the core of the Issuer's AML/CFT/F/C control system, enabling the effective identification, mitigation and control of compliance risks. Main approaches, standards and requirements for the procedures of the Issuer's AML/CFT/F/C control system aimed at preventing the participation in illicit operations are outlined by the Issuer's internal policy on anti-money laundering and combating the financing of terrorism, fraud and corruption.

The Issuer understands that its mission to promote economic growth and increase competitiveness of Member States' economies is more efficiently carried out if its corporate culture is aligned with generally accepted norms of corporate ethics and business conduct. Therefore, a Code of Conduct applicable to all employees has been prepared and implemented at the level of the Issuer. The Code of Conduct identifies key corporate values and rules of conduct in atypical situations. The Compliance Department collects information, educates and works with employees to prevent potential conflicts of interest. In 2018 the Code was reconsidered and amended following the request of the changing environment and appearance in the bank practice new cases not previously clearly described in the document. Attaching great importance to and promoting the formation of an efficient, transparent and competitive financial market, the Issuer has implemented certain internal control measures aimed at preventing, identifying, and stopping abuse in the form of unlawful use and dissemination of insider information, manipulation of prices for the Issuer's financial instruments, as well as financial instruments of third parties. To this end, in 2016 the Issuer updated its internal Regulations on the Procedure of Dealing with Insider Information and Insiders of the International Investment Bank, on the basis of the general requirements of Regulation No. 596/2014/EU of the European Parliament and of the Council on market abuse and the national legislation amendments of the Member States.

In 2016, the Issuer's Board approved certain amendments to the procedure for receiving and handling complaints in the International Investment Bank mainly aligned with the Uniform Framework for Preventing and Combatting Fraud and Corruption. The aim of the procedure is to gradually implement an independent accountability mechanism at the level of the Issuer. Under this procedure, each employee or third party may file complaint via the relevant communication channels with the Compliance Department on breaches in the activities by the Issuer, its staff members, or its counterparties related to prohibited practices. Consistent implementation of the independent accountability mechanism corresponds to the Member States' common intention to increase the Issuer's overall efficiency and social responsibility as an international entity.

In 2017, further steps to increasing compliance levels were taken. One such step is the implementation of an automated compliance system which is meant for the systematization, processing and control of the KYC requests regarding all the Issuer's counterparties. Another initiative put into practice since 2017 was to run compliance checks on the auditors of the financial reports appointed by the potential borrowers of the Issuer. Moreover, the Compliance Department gained access to information from credit bureaus and corporate registers and databases from the Member States. These measures, enhancing the capacity of the Issuer to perform efficient KYC procedures, along with an updated version of the Regulation on Measures for Combating Money Laundering, Financing Terrorism, Fraud and Corruption in the care of the Compliance Department came as responses to the increased complexity of the regulatory environment in the Member States and by the multitude of corruption investigations carried out thereto. Another landmark for 2017 is the signing of the Memorandum of Understanding in the field of compliance control by the Issuer and the Eurasian Development Bank in December, the implementation of which being scheduled for 2018.

In 2018, the Issuer updated the internal methodology and requirements for anti-money laundering, counter financing terrorism, combatting fraud and corruption. The document was aligned with the changes in the international guidelines issued by the relevant bodies (FATF, Basel Committees) and good practices of other IFI's.

LEGAL AND ARBITRATION PROCEEDINGS

There are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had, during the 12 (twelve) months prior to the date of this Offering Circular, a significant effect on the financial position or prospects of the Group.

MATERIAL CONTRACTS

There are no material contracts to which a member of the Group is a party, concluded outside of the ordinary course of the Group's business, which could result in any Group member being under an obligation or entitlement that is material to the Issuer's ability to meet its obligation to the bondholders in respect of the Bonds.

RELATED PARTIES TRANSACTIONS

The Group had no transactions with related parties, except in relation to maintaining current accounts for and payments of employee benefits and compensations to the key management personnel. The expenses in respect of such related parties transactions amounted to EUR 0.9 million for the first half of 2018, of which most represented employee benefits to the key management personnel (in the amount of EUR 0.8 million).

TREND INFORMATION

There has been no material adverse change in the prospects of the Issuer since the date of its last published consolidated audited financial statements. Except as set out herein, the Issuer is not aware of any other trends, uncertainties, demands, commitments or events that should be reasonably likely to have a material effect on the Issuer's prospects within the current financial year.

STATUTORY AUDITORS

The consolidated financial statements of the Group for the years ended 31 December 2015, 31 December 2016 and, respectively, 31 December 2017 prepared in accordance with the IFRS have been audited, and the interim condensed consolidated financial statements of the Group for the six-month periods ended 30 June 2017 and, respectively, 30 June 2018 prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting have been reviewed, by Ernst & Young Vneshaudit LLC, with its registered office at Sadovnicheskaya Nab., 77, bld.1, Moscow, 115035, Russia.

Ernst & Young Vneshaudit LLC is registered in the State Register of Legal Entities on 4 February 2016, State Registration Number 1167746123478. Ernst & Young Vneshaudit LLC is a member of Self-regulated organization of auditors "Russian Union of Auditors" (Association). Ernst & Young Vneshaudit LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050953.

No qualifications have been included in the reports prepared by the Group's financial auditors with respect to the Group's consolidated financial statements for the years ended 31 December 2015, 31 December 2016 and, respectively, 31 December 2017 and the six-month periods ended 30 June 2017 and, respectively, 30 June 2018.

TERMS AND CONDITIONS OF THE BONDS

The following does not purport to be a complete listing of all rights, obligations, or privileges of the Bonds. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors should carefully review the information contained in this Offering Circular and the information incorporated by reference herein, as well as the information found elsewhere relevant for the Offering (as such term is defined below). Prospective Bondholders are likewise encouraged to consult their legal and financial counsels and accountants in order to be better advised of the circumstances surrounding the Bonds. In respect of the Bonds, the terms and conditions below represent the sole terms and conditions governing the obligations of the Issuer under the Bonds, irrespective of any separate agreement which may exist between the Issuer and particular investors.

The terms and conditions (the "**Terms and Conditions**") herein relate to a public offering of unsecured floating interest rate Bonds denominated in RON and/or fixed interest rate Bonds denominated in EUR, issued by the International Investment Bank, an international organisation under, and subject to, public international law, established and operating on the basis of the intergovernmental Agreement on the Establishment of the International Investment Bank dated 10 July 1970 and the Charter of the International Investment Bank attached to the Establishment Agreement, initially registered with the Secretariat of the United Nations on 1 December 1971 under number 11417, with its official seat at 7 Mashi Poryvaevoy Street, 107 078 Moscow, Russian Federation, hereinafter referred to as the "**Offering**".

The Offering shall comprise RON-denominated floating interest rate Bonds with a three (3) year maturity and/or EUR-denominated fixed interest rate bonds, with a three-year maturity. The final aggregate minimum and maximum principal value of the Original RON Bonds and/or of the Original EUR Bonds, as well as the interest rate of the RON Bonds and/or of the EUR Bonds offered hereunder shall be established by the Issuer in consultation with the Managers and notified to investors through a pricing notification published on the Issuer's web site https://www.iib.int/en, on each of the Managers' websites at http://www.btcapitalpartners.ro, https://www.ing.ro and https://www.brd.ro/en respectively, and on the website of the Bucharest Stock Exchange www.bvb.ro, on 10 October 2018 (the "**Pricing Notification**"). The final aggregate minimum and maximum principal value of the New RON Bonds offered and/or of the New EUR Bonds offered (to the extent the Issuer launches a tap issue of Bonds in accordance with the provisions of Section 3.1 of these Terms and Conditions) shall be established by the Issuer in consultation with the Managers, and announced to investors through the tap pricing notification, which shall be published on the Issuer's web site https://www.iib.int/en, on each of the Managers' websites http://www.btcapitalpartners.ro, https://www.ing.ro and https://www.brd.ro/en respectively, and on the website of the Bucharest Stock Exchange www.bvb.ro (the "**Tap Pricing Notification**"),

The publication of the Pricing Notification and/or of the Tap Pricing Notification shall not be construed, nor shall require, an amendment of this Offering Circular or the Conditions.

1. DEFINITIONS AND INTERPRETATION

Capitalized term used herein and not otherwise defined in this Offering Circular shall have the following meaning:

Base Interest Rate for RON Bonds	means, as applied to RON Bonds (i) for the first Interest Period ROBOR 3M as of the date of the Pricing Notification; and (ii) for each subsequent Interest Period, ROBOR 3M as applicable on the second Business Day preceding the first day of each such subsequent Interest Period;
Bondholders	has the meaning ascribed to it under Condition 4 herein;
Bonds	means collectively the RON Bonds and the EUR Bonds;

Business Day	means a day in which banks are opened for general business in Bucharest and Moscow, other than Saturday, Sunday and public holidays;
BTCP	BT Capital Partners S.A.;
BRD	BRD - Groupe Société General S.A.;
Calculation Agent	BT Capital Partners S.A.;
Central Depository	Central Depository S.A.;
Eligible Recipient	has the meaning ascribed to it under Condition 12.3 herein;
EMU	means the Economic and Monetary Union;
EUR Bonds	means EUR-denominated fixed interest rate bonds, under the Offering with a three-year maturity, and in the minimum and maximum principal amount as announced through the Pricing Notification; EUR Bonds includes, collectively, Original EUR Bonds and New EUR Bonds;
Event of Default	has the meaning ascribed to it in Condition 13.1 herein;
Financial Indebtedness	means an indebtedness for or in respect of (i) moneys borrowed and debit balances at banks; (ii) any acceptance credit (including any dematerialised equivalent); (iii) any bond, note, debenture, loan stock or other similar instrument; (iv) any finance lease; (v) receivables sold or discounted (other than any receivables to the extent they are sold or discounted on a non-recourse basis); (vi) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing and (vii) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution;
Guarantee	means in relation to any Financial Indebtedness of any person, any obligation to pay such Financial Indebtedness including (without limitation): (i) any obligation to purchase such Financial Indebtedness; (ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Financial Indebtedness; (iii) any indemnity against the consequences of a default in the payment of such Financial Indebtedness; and (iv) any other agreement to be responsible for such Financial Indebtedness;
ING	ING Bank N.V. Amsterdam Sucursala Bucuresti;
Interest Payment Date	means, in relation to the EUR Bonds, 15 October of each year from and excluding the Issue Date and until and including the relevant Maturity Date and in relation to the RON Bonds, 15 January, 15 April, 15 July

	and 15 October of each year from and excluding the Issue Date and until and including the relevant Maturity Date; for the avoidance of doubt, the first Interest Payment Date for RON Bonds is 15 January 2019 and for EUR Bonds, is 15 October 2019;
Interest Period	means, (i) in relation to the EUR Bonds, the period beginning on the Issue Date (inclusive) and ending on the first relevant Interest Payment Date (exclusive) and each following twelve-month period beginning on an Interest Payment Date (inclusive) and ending on the next following Interest Payment Date (exclusive), until and excluding the relevant Maturity Date and (ii) in relation to the RON Bonds, the period beginning on the Issue Date (inclusive) and ending on the first relevant Interest Payment Date (exclusive) and each following three-month period, beginning on an Interest Payment Date (inclusive) and ending on the next following Interest Payment Date (exclusive), until and excluding the relevant Maturity Date; for the avoidance of doubt, interest payable in respect of each Interest Period shall be calculated in accordance with the "Standard 30E/360" interest calculation convention (*i.e.*, for the purposes of calculation of interest income, a year is deemed to have 360 (three hundred and sixty) days divided into 12 (twelve) months of 30 (thirty) calendar days;
Interest Rate	means, (i) in relation to the RON Bonds under the Offering the floating interest rate or, (ii) in relation to the EUR Bonds under the Offering, the fixed interest rate, established by the Issuer in consultation with the Managers for the Bonds and announced to investors through the Pricing Notification (see also "*Subscription and sale – Establishment of the principal value, Interest Rate and maturity of RON Bonds and EUR Bonds*");
Issue Date	means in relation to each of the RON Bonds and the EUR Bonds, the second Business Date following the Transaction Date, when the Bonds are delivered to the Bondholders pursuant to the Conditions herein, *i.e.,* 15 October 2018;
Issue Date for New Bonds	has the meaning ascribed to it in Condition 3.3 herein;
Issue Price per Original Bond	Original Bonds, are issued at their respective Nominal Value;
Issue Price per New Bond	shall be established by the Issuer in consultation with the Managers, and announced to investors through the tap pricing notification, which shall be published on the Issuer's web site https://www.iib.int/en, on each of the Managers' websites http://www.btcapitalpartners.ro, https://www.ing.ro and https://www.brd.ro/en respectively, and on the website of the Bucharest Stock Exchange www.bvb.ro;
Material Subsidiary	means, as of any date, an entity (i) whose affairs and policies are controlled by the Issuer, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body or otherwise; or (ii) whose financial statements are, in accordance with

applicable law and generally accepted accounting principles, consolidated with those of the Issuer and (iii) whose consolidated (or in the case of an entity that does not itself have any subsidiaries, unconsolidated) total assets represent 10% or more of the total book value of all assets of the Issuer's group as reflected in the Issuer's most recent consolidated annual audited financial statements;

Maturity Date means in relation to each of the RON Bonds and the EUR Bonds, the date falling three years after the Issue Date;

New Bond has the meaning ascribed to it in Condition 3.1 herein;

Nominal Value means the nominal value of each of the Bonds, being, (i) in relation to the RON Bonds the amount of RON 10,000 and, in relation to the EUR Bonds the amount of EUR 10,000;

Offering has the meaning ascribed to it in the preamble of this section "*Terms and conditions of the Bonds*";

Original Bonds means the RON Bonds and the EUR Bonds issued on the Issue Date;

Participant means any entity authorised to open securities accounts with the Central Depository on its own name, whether on its own behalf or on behalf of its clients;

Paying Agent Banca Transilvania S.A.;

Payment Date has the meaning ascribed to it in Condition 12.2 herein;

Permitted Security Interest means (i) any Security Interest in respect of a Financial Indebtedness the secured amount of principal of which does not at any time exceed 20% of the total book value of all assets of the Issuer's group as reflected in the Issuer's most recent consolidated annual audited financial statements; (ii) any Security Interest arising in the ordinary course of banking transactions (including, without limitation, such as sale and repurchase transactions and share, loan and bond lending transactions and any netting or set-off arrangements entered into by the Issuer or any Material Subsidiary for the purpose of netting any debit and credit balances), provided that the Security Interest is limited to the assets which are the subject of the relevant transaction; (iii) Security Interests imposed or required by statute or operation of law (but not through any act or omission to act on the part of the Issuer or any of its Material Subsidiaries); and (iv) any extension, renewal, refunding or replacement, as a whole or in part, of any Security Interest referred to in clauses (i) to (iii), inclusive, for amounts not exceeding the principal amount of indebtedness secured by such Security Interest so extended, renewed or replaced (plus improvements thereon or additions or accessions thereto;

Pricing Notification means the notification which shall be published on the Issuer's website https://www.iib.int/en, on each Manager's website

	http://www.btcapitalpartners.ro, https://www.ing.ro and https://www.brd.ro/en, respectively, and on the website of the Bucharest Stock Exchange www.bvb.ro, on 10 October 2018, where the Issuer and the Managers shall *inter alia* announce the Interest Rate for the RON Bonds and for the EUR Bonds to investors (see "*Subscription and sale – Establishment of the principal value, Interest Rate and maturity of RON Bonds and EUR Bonds*");
Procedures	has the meaning ascribed to it in Condition 12.4 (a) herein;
Redemption Date	means the Maturity Date or the Early Redemption Date, as applicable;
Reference Date	means the date falling 15 Business Days before the relevant Payment Date;
Registry of Bondholders	means the evidence of bondholders maintained electronically by the Central Depository on the basis of the contractual arrangements entered into with the Issuer;
Relevant Account	means the Registry of Bondholders or the internal account of a Participant registered in the Registry of Bondholders, as the case may be;
Restricted Party	means any person or entity which is (i) listed on a Sanctions List, or a person acting on behalf of such a person; or (ii) the subject of any Sanctions;
ROBOR	means the Romanian Interbank Offer Rate;
ROBOR 3M	means (i) the 3-month offered rate for deposits in RON, as displayed on the National Bank of Romania's webpage for the relevant interest determination date; or (ii) if the rate set out at item (i) above is not available**,** the Calculation Agent will request at least two leading banks active on the Romanian market to provide indicative interest rates for RON-denominated deposits having a value equal to the outstanding nominal amount of the RON Bonds, for a period equal to the relevant Interest Period, and the relevant Base Interest Rate for RON Bonds shall be deemed equal to the average of such rates (if necessary – after giving effect to rounding up to the nearest second decimal, with 0.005 amounts being rounded up);
RON Bonds	means RON-denominated floating interest rate bonds, under the Offering with a three-year maturity, and in the minimum and maximum principal amount as announced through the Pricing Notification; RON Bonds include, collectively, Original RON Bonds and New RON Bonds;
Sanctions	means any country- or territory-wide trade, economic or financial sanctions laws, regulations, embargoes or restrictive measures administered, enacted or enforced by a Sanctions Authority;

Sanctions Authority	means each entity under (i) to (v) of the definition of the Sanction List;
Sanctions List	means the Specially Designated Nationals and Blocked Persons list maintained by Office of Foreign Assets Control of the US Department of the Treasury (OFAC), the Consolidated List of Financial Sanctions Targets and the Investment Ban List maintained by Her Majesty's Treasury, or any similar list maintained by, or public announcement of a Sanctions designation made by (i) the Security Council of the United Nations; (ii) the United States of America; (iii) the European Union; (iv) the member states of the European Union and (v) the governments and official institutions or agencies of any of paragraphs (i) to (iv) (including OFAC, the US Department of State and Her Majesty's Treasury), each as amended, supplemented or substituted from time to time;
Security Interest	means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;
Tap Pricing Notification	means the notification which shall be published on the Issuer's website https://www.iib.int/en, on each Managers' website http://www.btcapitalpartners.ro, https://www.ing.ro and https://www.brd.ro/en, respectively, and on the website of the Bucharest Stock Exchange www.bvb.ro, where the Issuer and the Managers shall *inter alia* announce the final aggregate minimum and maximum principal value of the New RON Bonds offered and/or of the New EUR Bonds offered (to the extent the Issuer launches a tap issue of Bonds in accordance with the provisions of Section 3.1 of these Terms and Conditions);
Transaction Date	means the date on which trades in relation to the Bonds are executed through the Bucharest Stock Exchange electronic system; in connection with Original Bonds, on 11 October 2018.

2. GENERAL

2.1 The Bonds are issued in registered form and evidenced by book-entry (in Romanian: *obligatiuni nominative in forma dematerializata*). The entity in charge of keeping the records of the Bonds is the Romanian Central Depository, a Romanian joint stock company having its registered office at 34-36 Carol I Blvd., 3rd, 8th and 9th floors, Bucharest, 020922, Romania. The Bonds shall be registered in the system of the Central Depository in accordance with the regulations thereof, by the crediting of the accounts of the Bondholders opened with the Central Depository, directly or through a Participant.

2.2 The RON Bonds are denominated in RON and the EUR Bonds are denominated in EUR. Each RON Bond has a Nominal Value of RON 10,000, while each EUR Bond has a Nominal Value of EUR 10,000. If Romania becomes a member state of the Economic and Monetary Union (the "**EMU**") prior to any relevant Maturity Date, adopting EUR as its national currency, at any date after the gaining of such membership in the EMU by Romania, the Issuer may choose to redenominate all outstanding RON Bonds in EUR and adjust their aggregate and individual Nominal Value accordingly, subject to a 30-day previous notice to the Bondholders and with the observance of any applicable legal provisions. Any alteration of the principal amounts of the RON Bonds shall be made in accordance with existing or anticipated market practice and, if consistent therewith, may be made by redenominating the Nominal Value of the RON Bonds by using the fixed RON/EUR conversion rate and rounding the resultant figure to the nearest EUR 0.01 (with EUR

0.005 being rounded upwards). Any adjustment amounts owed to the Bondholders as a result of the application of such rounding shall be paid in EUR, in the conditions notified to the Bondholders. To the extent that applicable provisions of law allow the Issuer to redenominate the RON Bonds in EUR and to take additional measures, the Issuer may exercise the rights provided by law instead of or in addition to the rights set out in this Condition. Neither the Issuer nor the Paying Agent shall be liable to the Bondholders or any other persons for any commission, cost, loss or expense related or resulting from the redenomination of the RON Bonds in EUR in accordance with this Condition 2.2 or any related operation. If a redenomination of the RON Bonds is performed in accordance with this Condition 2.2, all references to RON in these Conditions shall be deemed references to EUR.

2.3 Original Bonds are issued at Nominal Value. The Issue Price for New Bonds shall be established by the Issuer in consultation with the Managers and announced to investors through the Tap Pricing Notification.

2.4 The Bonds are issued under the laws of Romania. Any dispute arising out of or in relation to the Bonds shall be settled by the competent Romanian courts.

2.5 The Bonds shall be issued and delivered to the Bondholders on the Issue Date, *i.e.*, 15 October 2018.

2.6 The ISIN code(s) assigned to the Bonds shall be announced through the Pricing Notification to be published on the Issuer's web site https://www.iib.int/en, on each Manager's website http://www.btcapitalpartners.ro, https://www.ing.ro and https://www.brd.ro/en, respectively, and on the website of the Bucharest Stock Exchange www.bvb.ro on 10 October 2018.

2.7 The final aggregate minimum and/or, if the case, maximum principal value of the RON Bonds offered hereunder and/or, if the case, the final aggregate minimum and/or, if the case, maximum principal value, of the EUR Bonds offered hereunder shall be established by the Issuer in consultation with the Managers and notified to investors through the Pricing Notification published on the Issuer's web site https://www.iib.int/en, on each Manager's website http://www.btcapitalpartners.ro, https://www.ing.ro and https://www.brd.ro/en, respectively, and on the website of the Bucharest Stock Exchange www.bvb.ro, on 10 October 2018.

2.8 The issuance and the offering of the Bonds has been approved by the resolution of the Issuer's Board and the terms and conditions applicable thereto shall be further approved by the resolution of the Chairman of the Board. An issuance of New Bonds in accordance with the provisions Condition 3.1 below shall be approved by the resolution of the Chairman of the Board.

3. FURTHER ISSUES

3.1 The Issuer may from time to time, without the consent of the Bondholders, create and issue further bonds having the same terms and conditions as the Bonds in all respects (except for the date of issue and the issue price) (the "**New Bonds**"), so that the same shall be consolidated and form a single series with the Original Bonds, fully fungible with the Original Bonds and having the same ISIN code as the Original Bonds. The term "Bonds" shall, in the event of such further issue, also comprise such New Bonds.

3.2 The Issuer may issue New Bonds pursuant to clause 3.1 above during a period of 12 months from the Issue Date. No New Bonds will be issued in accordance in the period between a Reference Date (inclusive) and an Interest Payment Date (exclusive).

3.3 In connection with such New Bonds, the term "Issue Date" used in Condition 2.5 above will be replaced with the term "Issue Date for New Bonds".

3.4 Notwithstanding and without prejudice to clauses 3.1 to 3.3 above, the Issuer may at any time issue any further bonds under terms and conditions similar to or different from the Conditions, such bonds representing a different issue than the Bonds. The Issuer may sell any number of such bonds by any means, and at any such price, the Issuer may deem fit in its sole discretion.

4. BONDHOLDERS

The Bondholders are the persons registered as owners of the Bonds as of the Reference Date (i) in the Registry of Bondholders or (ii) in the internal account of a Participant registered in the Registry of Bondholders (each such person being hereinafter referred to as a "**Bondholder**"). In this latter case, the Issuer reserves the right to rely on the authority of each Participant to fully represent (directly or indirectly) the Bondholder and perform *vis-a-vis* the Issuer and to the account of the Bondholder all legal acts (either in the Bondholder's name or in its own name) associated with the Bonds as if this person were their owner. Unless the laws or a decision of the court delivered to the Issuer provides otherwise, the Issuer and the Paying Agent will deem every Bondholder the authorised owner of the Bonds in all respects and make the payments under this Offering Circular to that Bondholder.

5. PAYMENT OBLIGATION OF THE ISSUER

The Issuer declares that it is obliged to pay to each Bondholder the Nominal Value of the Bonds held by the respective Bondholder and the applicable interest on such Bonds, in accordance with the Conditions herein.

6. TRANSFERABILITY AND RIGHTS ATTACHED TO THE BONDS

6.1 Transferability of the Bonds and the rights attached to the Bonds are not restricted, except for any general statutory restrictions applicable to creditor rights in general and the individual restrictions applicable to each Bondholder (if any).

6.2 The ownership right over the Bonds is transferred on a delivery versus payment basis (*i.e.*, the securities being delivered only if the corresponding purchase price is paid), by the registration of the Bonds in the relevant account of the Bondholders, in accordance with the regulations of the Central Depository and the applicable legislation. All costs related to the transfer of the Bonds are incurred by the relevant Bondholder.

6.3 No rights of exchange or pre-emption rights are attached to the Bonds.

6.4 No transfer of Bonds may be registered in the Registry of Bondholders starting with and including one Business Day before the Reference Date immediately preceding the relevant Maturity Date and until and including the relevant Maturity Date.

7. STATUS OF THE ISSUER'S OBLIGATIONS

7.1 The obligations under the Bonds will constitute direct, unsecured, unconditional and unsubordinated obligations of the Issuer ranking *pari passu* among themselves and as to the order of their satisfaction and at least *pari passu* to all other current and future direct, unsecured, unconditional and unsubordinated obligations of the Issuer, except for those obligations of the Issuer so identified by the mandatory provisions of law and provided, however, that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other obligations and, in particular, the Issuer shall have no obligation to pay other obligations at the same time or as a condition of paying sums due on the Bonds and/or applicable interest and *vice versa*.

7.2 The Issuer undertakes to treat the holders of Bonds of the same category (in terms of denomination and interest rate – fixed or floating) equally.

8. NEGATIVE PLEDGE

So long as any Bond remains outstanding, the Issuer shall not, and the Issuer shall procure that none of its Material Subsidiaries will, create or permit to subsist any Security Interest, except for any Permitted Security Interest, upon the whole or any part of its present or future undertaking, assets or revenues

(including uncalled capital) to secure any Financial Indebtedness or Guarantee of Financial Indebtedness without at the same time or prior thereto securing the Bonds equally and rateably therewith.

9. UNDERTAKINGS IN RESPECT OF USE OF PROCEEDS

The Issuer undertakes that it will not contrary to the Sanctions use, lend, contribute, or otherwise make available any part of the proceeds of the Bonds directly or indirectly for the purpose of financing any trade, business or other activities involving, or for the benefit of, any person that is a Restricted Party.

10. INTEREST ON THE BONDS

10.1 Interest

The Bonds bear interest on their principal amount from and including the Issue Date and up to and excluding the relevant Maturity Date at the Interest Rate announced through the Pricing Notification, payable in twelve-month arrears for EUR Bonds and in three-month arrears for RON Bonds.

For purposes of clarity, the first Interest Payment Date on the EUR Bonds is 15 October 2019 and the first Interest Payment Date on the RON Bonds is 15 January 2019 and the last Interest Payment Date on the Bonds shall fall on the relevant Maturity Date.

10.2 Interest Rate

RON Bonds will have floating Interest Rate, as may be established by the Issuer in consultation with the Managers and notified to investors through the Pricing Notification published on the Issuer's web site https://www.iib.int/en, on each Manager's website http://www.btcapitalpartners.ro, https://www.ing.ro and https://www.brd.ro/en, respectively, and on the website of the Bucharest Stock Exchange www.bvb.ro, on 10 October 2018.

EUR Bonds will have fixed Interest Rate, as may be established by the Issuer in consultation with the Managers and notified to investors through the Pricing Notification published on the Issuer's web site https://www.iib.int/en, on each Manager's website http://www.btcapitalpartners.ro, https://www.ing.ro and https://www.brd.ro/en, respectively, and on the website of the Bucharest Stock Exchange www.bvb.ro, on 10 October 2018.

10.3 Interest accrual

Each Bond shall accrue and bear interest from and including the first day of each Interest Period until and including the last day of the Interest Period.

10.4 Interest calculation convention

The "Standard 30E/360" interest calculation convention will be used (*i.e.*, for the purposes of calculation of interest income, a year is deemed to have 360 (three hundred and sixty) days divided into 12 (twelve) months of 30 (thirty) calendar days, provided, however, in the case of an incomplete month, due to reasons such as, but not limited to, trades in the secondary market, interest shall be calculated on the basis of the number of days elapsed on the basis of a 30-day month.

10.5 Determination of the interest income

(a) The amount of interest income attributable to one Bond for each period of one current year will be determined as the nominal value of the Bond multiplied by the applicable interest rate (expressed by a decimal number). The amount of interest income attributable to one Bond for each period of less than one current year will be determined as the Nominal Value of the Bond multiplied by the applicable interest rate (expressed by a decimal number) multiplied by the relevant day fraction calculated in

accordance with the interest calculation convention specified in Condition 10.4 above, with the resulting amount rounded to two decimal points pursuant to mathematical rules.

(b) Save for manifest error, the calculation of yield on the Bonds by BTCP acting as calculation agent will be final and binding on all Bondholders, and Bondholders shall have no right to contest or oppose such calculation.

10.6 End of interest accruing

The Bonds will cease to bear interest on and excluding the Redemption Date, unless at the moment of all conditions and requirements being satisfied, the repayment of the outstanding amount is refused or delayed by the Issuer without justification. In such case, interest will continue to accrue on the Bonds at the applicable interest rate and by reference to the Nominal Value until the Bondholders are paid all amounts payable as of that day in accordance with these Conditions.

11. MATURITY OF THE BONDS AND REPURCHASE

11.1 Final repayment

If the Bonds do not become early payable under these Conditions, the Nominal Value is payable as a bullet payment on the respective Maturity Date of the Bonds.

11.2 No redemption at the option of the Issuer

The Issuer shall have no right to early redeem any of the Bonds.

11.3 Purchase, resale and cancellation of the Bonds by the Issuer

The Issuer may at any time purchase any Bonds on the secondary market, under any conditions and for any market price. The Bonds thus purchased by the Issuer shall not cease to exist and may be kept, resold or cancelled by the Issuer, at its sole discretion. The rights and obligations under the Bonds purchased by the Issuer shall cease to exist due to their amalgamation in a single person at the earlier of: (i) cancellation by the Issuer and (ii) their respective Maturity Date.

12. CURRENCY, DATES AND MAKING OF PAYMENTS; GROSS-UP

12.1 Currency

The Issuer undertakes to pay the applicable interest on the RON Bonds on each Interest Payment Date, and repay the Nominal Value of the RON Bonds on the Redemption Date, in RON, as well as, to pay the applicable interest on the EUR Bonds on each Interest Payment Date, and repay the Nominal Value of the EUR Bonds on the Redemption Date, in EUR. All payments under the Bonds to the Bondholders shall be made in accordance with these Conditions and applicable tax and other laws of Romania as valid and effective at the time of making of the payment (see also "*Taxation*").

In case the Issuer becomes a Restricted Party, such payments will be made:

(i) in RON, to the extent the Issuer is allowed to make payments in RON; for amounts that represent the RON equivalent of a sum that should have been paid in EUR, the reference exchange rate used will be the one published by the National Bank of Romania on its website for the relevant payment date; or

(ii) to the extent the Issuer is not allowed to make payments in neither EUR, nor RON, the payments will be made in the currency of another Member State of the European Union, at the reference exchange rate published by the European Central Bank for the relevant payment date; or

(iii) to the extent the Issuer is not allowed to make payment in accordance with the provisions set out at items (i) and (ii) above, the payments will be made in a currency (a) with recognised parity by the European Central Bank, at the reference exchange rate published by the European Central Bank for the relevant payment date and (b) which is the first currency the Issuer is allowed to make payments in, by reference to its rank in the list of most traded currencies by value, such list being compiled by taking into account the currency distribution of global foreign exchange market turnover at the time the payment is made (as published in the survey report prepared by the Bank for International Settlements or by another such reputable international institution).

12.2 Payment dates

(a) All payments under the Bonds will be made through the Paying Agent on the dates specified in these Conditions (each, a "**Payment Date**"), in accordance with Condition 12.4 below.

(b) If the Payment Date falls on a day other than a Business Day, the Issuer, through the Paying Agent, shall pay the relevant amounts on the next following Business Day, without being obliged to pay any default interest or any other additional amounts.

12.3 Determination of the right to receive payments

(a) All payments under the Bonds will be paid to those persons who are Bondholders registered as such in the Relevant Accounts at end of business hours on the relevant Reference Date (the "**Eligible Recipient**"). All payments made to Eligible Recipients shall be deemed as effective and irrevocable discharge of the Issuer's and the Paying Agent's payment obligations towards such persons.

(b) For the purposes of determination of the Eligible Recipient, neither the Issuer nor the Paying Agent will take into consideration any transfers of Bonds occurring after the Reference Date and until the relevant Payment Date and the respective transferee shall not have the right to claim or receive the relevant payment for the purposes of which they were not duly registered as Bondholders by the aforementioned time on the Reference Date.

12.4 Making of payments

(a) The Paying Agent will make all payments under the Bonds in accordance with the applicable law, the procedures issued by the Central Depository, set out in the agreement to be concluded between the Central Depository and the Issuer and/or notified to the Bondholders by the Central Depository and/or the Paying Agent with respect to payments under the Bonds (the "**Procedures**").

(b) The obligation to pay any amount under the Bonds is deemed to be satisfied properly and on time if, on the relevant due date, the relevant amount is transferred to the Eligible Recipient in accordance with the Procedures.

(c) The Issuer and the Paying Agent are under no obligation to effect payments to Eligible Recipients unless and until such persons have provided all relevant information requested to be provided by them in accordance with the Procedures and neither the Issuer nor the Calculation Agent or the Paying Agent is liable for any delay in paying any outstanding amount due to (i) Central Depository's or the Eligible Recipients' failure to deliver proper information or other documents or information under the Procedures and these Conditions on time, (ii) because any related or relevant documents or information was incomplete, incorrect or untrue, or (iii) because the delay was caused by circumstances outside the control of the Issuer or the Paying Agent or the Calculation Agent. In these cases, the Bondholders do not become entitled to any extra payment or interest for the delay of that payment.

12.5 Gross-up

All payments under the Bonds by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Czech Republic, Hungary, Republic of Bulgaria, Republic of Cuba, Romania, Russian Federation, Slovak Republic, Mongolia or the Socialist Republic of Vietnam or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Bondholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond held by or on behalf of a Bondholder which is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Bond.

For the avoidance of doubt, Central Depository fees payable upon the effectuation payments in respect of the Bonds shall be incurred by the Issuer.

13. EARLY REPAYMENT OF THE BONDS ON DEFAULT

13.1 Events of Default

If any of the following events occurs and is continuing (each of them an "**Event of Default**"):

(a) *Non-payment*: the Issuer does not pay an amount payable under the Bonds within 15 calendar days from its due date;

(b) *Breach of other obligations*: the Issuer breaches any other obligation under or in connection with the Bonds and does not remedy this breach within 30 calendar days from the day on which any Bondholder notified the Issuer of this fact by a written notice delivered to the Issuer;

(c) *Cross-Acceleration of Issuer or Material Subsidiary:* either of the following events occurs in respect of the Issuer or its Material Subsidiary:

(i) any Financial Indebtedness of the Issuer or any of its Material Subsidiaries is not paid when due or (as the case may be) within any applicable grace period;

(ii) any such Financial Indebtedness becomes due and payable prior to its stated maturity as a result of an event of default and otherwise than at the option of the Issuer or (as the case may be) the relevant Material Subsidiary or (provided that no event of default, howsoever described, has occurred) any person entitled to such Financial Indebtedness; or

(iii) the Issuer or any of its Material Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Financial Indebtedness of any other person;

provided that no event in this paragraph (c) shall constitute an Event of Default unless the amount of Financial Indebtedness and/or the amount payable under any Guarantee, individually or when aggregated (without duplication) with any other Financial Indebtedness or amount payable under Guarantee as a result of any other event specified in this paragraph (c) which has occurred and is continuing, exceeds EUR 15,000,000 (or its equivalent in any other currency or currencies);

(d) *Inability to pay debts*: either of the following events occurs in respect of the Issuer or its Material Subsidiary:

(i) the Issuer or any of its Material Subsidiaries becomes insolvent or is unable to pay its debts as they fall due;

(ii) an administrator or liquidator is appointed (or an application for any such appointment is made by or with the consent of the Issuer) in respect of the Issuer or any of its Material Subsidiaries;

(iii) the Issuer or any of its Material Subsidiaries takes any action for a readjustment or deferment of its material obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of its material Indebtedness or any Guarantee of any Indebtedness given by it;

(iv) the Issuer or any of its Material Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business (otherwise than, in the case of a Material Subsidiary of the Issuer, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or

(v) an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or any of its Material Subsidiaries (otherwise than, in the case of a Material Subsidiary of the Issuer, for the purposes of or pursuant to an amalgamation, consolidation, reorganisation or restructuring whilst solvent);

(e) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Bonds;

then each Bondholder will have the right to declare all RON Bonds and/or the EUR Bonds (but not some only) held by that Bondholder immediately due and payable and require the Issuer to pay the Nominal Value of each Bond held by that Bondholder together with any accrued interest, by a written notification to the Issuer. For the avoidance of doubt, an Event of Default under paragraph (g) above occurring only in relation to a particular series of Bonds (being RON Bonds or EUR Bonds) shall not trigger cross-default by the Issuer in relation to the other series of Bonds (being EUR Bonds and, respectively, RON Bonds) to which it does not relate.

13.2 Duty to inform

The Issuer must without undue delay notify the Bondholders, the Calculation Agent and the Paying Agent of the occurrence of any Event of Default. Any such notification must specify the nature of the Event of Default and the circumstances giving rise to it.

14. STATUTE OF LIMITATIONS

The rights under the Bonds are subject to statute of limitations (in Romanian: *prescriptie extinctiva*) of three years from their respective due date.

15. CALCULATION AGENT AND PAYING AGENT

15.1 The applicable amounts payable to the Bondholders on the Bonds in accordance with Condition 10.1 above shall be calculated by BT Capital Partners S.A., a joint stock company incorporated under the laws of Romania, having its principal office at 74-76 Constantin Brancusi Street, Brancusi Business Center, ground floor, Cluj-Napoca, Cluj County, Romania, in capacity as Calculation Agent. Payments of such amounts shall be effected by Banca Transilvania S.A., a joint stock company incorporated under the laws of Romania, having its principal office at 8 George Baritiu Street, Cluj-Napoca, Cluj County, Romania, in capacity as Paying Agent.

15.2 The Issuer may appoint another or an additional calculation agent and, respectively, paying agent in accordance with the contractual arrangements entered into with the Calculation Agent and, respectively, the Paying Agent. Any such change shall be notified to the Bondholders in accordance with the Conditions herein and shall not be deemed as an amendment of the Conditions.

15.3 The Issuer may not dispose of the funds paid by the Issuer to the account opened with the Paying Agent to be used to pay the interest income on the Bonds and the Nominal Value. These funds are not owned by the Paying Agent; the Paying Agent must use them only for payments to the Bondholders in accordance with the Conditions herein.

15.4 Each of the Calculation Agent and the Paying Agent acts in connection with the performance of its obligations as agent of the Issuer and in this connection, has no legal relationship with the Bondholders, under or by virtue of these Conditions or otherwise.

15.5 Copies of the agreements whereby the calculation agent(s) and the paying agent(s) are appointed in such capacity (capacities) in respect of the Bonds shall be available for inspection by the Bondholders at the respective addresses mentioned herein or otherwise notified to the Bondholders in accordance with Condition 16.2 above, during normal business hours.

16. AMENDMENTS

16.1 The Conditions may be amended without the consent of the Bondholders for the purposes of the rectification of manifest errors.

16.2 Any amendment to the Conditions hereunder will be published in English language (unless Romanian language is required under law) on the Issuer's web site https://www.iib.int/en and/or the website of the Bucharest Stock Exchange www.bvb.ro.

17. NOTICES

17.1 Any notice to the Bondholders in connection with the Bonds will be published in English language (unless Romanian language is required under law) on the Issuer's web site https://www.iib.int/en and/or the website of the Bucharest Stock Exchange www.bvb.ro. If a law or regulation requires its publication by other means, the notice will be published also by those other means. If a notice is published by several means, the publication date of such notice will be deemed to be the date of its first publication. The date of publication is also deemed to be the date of delivery of the notice to the Bondholders.

17.2 Any notice to the Issuer in connection with the Bonds must be delivered in writing to the following address of BTCP: 74-76 Constantin Brancusi Street, Brancusi Business Center, ground floor Cluj-Napoca, Cluj County, Romania.

17.3 Any notice to BT Capital Partners S.A., in capacity as Lead Manager and/or Calculation Agent must be delivered in writing to the following address of the Lead Manager: 74-76 Constantin Brancusi Street, Brancusi Business Center, ground floor, Cluj-Napoca, Cluj County, Romania, to the attention of Investment Banking and Capital Market Division.

17.4 Any notice to BRD - Groupe Société Générale **S.A.,** in capacity as Co-Manager must be delivered in writing to the following address of the Co-Manager: 1 – 7 Ion Mihalache **Blvd**, 1st **district,** Bucharest, Romania, to the attention of Corporate Finance Department.

17.5 Any notice to ING BANK N.V. AMSTERDAM SUCURSALA BUCURESTI, in capacity as Co-Manager must be delivered in writing to the following address of the Co- Manager: Iancu de Hunedoara Blvd, ground floor – 12th floor + 14th floor, 1st district*, Bucharest*, Romania, to the attention of Corporate Finance Division.

17.6 Any notice to Banca Transilvania S.A., in capacity as Paying Agent must be delivered in writing to the following address of BTCP: 74-76 Constantin Brancusi Street, Brancusi Business Center ground floor, Cluj-Napoca, Cluj County, Romania.

17.7 Notices to the Issuer, the Managers, the Calculation Agent and the Paying Agent must be delivered by registered mail and shall be deemed delivered to the respective party on the date indicated in the delivery confirmation.

18. GOVERNING LAW, LANGUAGE AND DISPUTES

18.1 Any rights and obligations arising under or in connection with the Bonds will be governed and construed in accordance with the laws of Romania.

18.2 Any disputes between the Issuer and the Bondholders regarding the Bonds will be resolved by the relevant competent court of Romania. The Issuer irrevocably waives any objection which it might now or hereafter have (for reasons of its status, immunity or otherwise) to the Romanian courts being nominated as the forum to hear and determine any proceedings and to settle any disputes regarding the Bonds.

18.3 These Conditions are prepared in the English language and shall be binding on the Issuer and the Bondholders. The English language version of these conditions shall prevail over any translation thereof.

19. WAIVER OF IMMUNITIES

To the extent that the Issuer, at any time and in any jurisdiction, is entitled or may otherwise claim for itself or its assets or properties or revenues, whether of a commercial or a non-commercial nature, immunity from suit, execution, enforcement proceedings or attachment or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or properties or revenues, whether of a commercial or a non-commercial nature, the Issuer irrevocably and unconditionally waives, and agrees not to plead or claim, any such immunity. For the avoidance of doubt, the irrevocable waiver in this clause extends to any bank account of the Issuer and includes a waiver of any right of immunity in respect of pre-judgment interim relief and post-judgment execution of any judgment or arbitral award.

20. REPRESENTATION OF THE ISSUER

The Issuer represents to each Bondholder that all information in these Conditions is true and complete.

TAXATION

Potential purchasers, holders and sellers of the Bonds should be aware that they may be required to pay taxes or other documentary charges or duties in accordance with the laws and practices of the country where the Bonds are issued or transferred, or of other jurisdictions. Potential investors are advised not to rely upon the tax summary contained in this Offering Circular but to ask for their own tax advisers' advice on their individual taxation with respect to the acquisition, holding, sale and redemption of the Bonds. Only these advisers are in a position to duly consider the specific situation of the potential investor. This investment consideration should be read in connection with this "Taxation" section of the Offering Circular which contains a summary discussion of certain relevant aspects of Romanian taxation. The following summary is general in nature and does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to purchase, own or dispose of the Bonds. It is not intended to be, nor should it be considered to be, legal or tax advice to any holder of the Bonds. The considerations provided herein are not binding on the Romanian tax authorities and there can be no assurance that the authorities will not take a position contrary to the considerations expressed herein. Each prospective holder or beneficial owner of Bonds should consult its tax advisor on the Romanian tax consequences of any investment in, or ownership and disposition of the Bonds. The "Taxation" section of the Offering Circular is prepared considering that the Issuer is a non-resident from a Romanian tax standpoint and does not have a permanent establishment in Romania.

General information

The statements herein regarding taxation are based on the laws in force in Romania as of the date of this Offering Circular and does not take into account any subsequent changes in the law, whether or not such changes have a retroactive effect.

The following summary does not take into account or discuss the tax laws of any country other than Romania. Prospective non-resident holders or beneficial owners of Bonds should request tax advice regarding the tax consequences of any investment in, or ownership and disposition of, the Bonds that may appear in any jurisdiction in which they have to or may have to pay taxes.

Definitions of terms

The terms used in this section "*Taxation*" shall have the following meaning, ascribed to them in accordance with Law no. 227/2015 regarding the Fiscal Code in force starting 1 January 2016, as amended and supplemented, (the "**Fiscal Code**"):

Foreign legal entity means any legal entity which is not a Romanian legal entity and any legal entity established according to the European regulations which does not have a registered head office in Romania;

Non-resident means any foreign legal entity, any non-resident individual and any other foreign entities, including undertakings for collective investment in securities, without legal personality, not registered in Romania, according to the law;

Non-resident individual means any individual who does not meet the conditions to be a resident individual, and/or any individual foreign citizen with diplomatic or consular status in Romania, and/or any foreign citizen who is an official or employee of an international and intergovernmental organization that is registered in Romania, and/or any foreign citizen who is an official or employee of a foreign state in Romania, and/or members of the family of such foreign citizens;

Resident means any Romanian legal entity, any foreign legal entity having the place of effective management in Romania, any legal entity with a registered head office in Romania, established according to the European regulations, and any resident individual;

Resident individual means any individual who satisfies at least one of the following conditions: (i) the individual has the domicile in Romania; (ii) the individual's centre of vital interests is in Romania; (iii) the individual is present in Romania for a period or periods that

exceed in total 183 days, during any period of 12 consecutive months, ending in the calendar year in question; or (iv) the individual is a Romanian citizen who is serving abroad as an official or employee of Romania in a foreign state;

Romanian legal entity means any legal entity which was established and operates in accordance with Romanian legislation.

Individual contributors to the Social Health Insurance System ("SHIS") in respect of the income from investments has the following meaning:

a) Romanian citizens having their domicile or residence in Romania;

b) foreign citizens and stateless persons who requested and obtained the extension of their temporary right to stay or have their domicile in Romania;

c) citizens of the Member States of the European Union, European Economic Area and Swiss Confederation who do not hold an insurance concluded on the territory of another Member State producing effects on the territory of Romania, who requested and obtained the right to stay in Romania for a period exceeding 3 months;

d) persons of the Member States of the European Union, European Economic Area and Swiss Confederation who meet the conditions of frontier worker and pursue an activity as an employed or self-employed person in Romania and reside in another Member State to which they return on a daily basis or at least once a week.

The persons stipulated in letters a) - d) above, holding a sickness and maternity insurance within the social security system of another Member State of the European Union, European Economic Area and Swiss Confederation or of the states with which Romania concluded bilateral social security agreements regulating the sickness-maternity insurance, based on the internal legislation of the respective states, which produces effects on the territory of Romania and who provide the proof of the validity of such insurance, in accordance with the procedure established by a joint order of the president of National Agency if Tax Administration and of the president of the National House of Health Insurance, are not contributors to the social health insurance system (SHIS);

Sole tax return for Estimated Income means the *sole tax return regarding income tax and social security contributions due by individuals - Chapter II. Data concerning tax on estimated income/ income norm to be derived in Romania and the payable social security contributions* to be submitted by taxpayers for the income estimated to be obtained in each tax year, until 15 March inclusive of each reference year;

Sole tax return for Realised Income means the *sole tax return regarding income tax and contributions due by individuals - Chapter I. Data on realised income* to be submitted by taxpayers, for each tax year, until 15 March inclusive of the year following the year in which the income was realised, for the final assessment of the annual income tax;

Interest defined as any amount which must be paid or received for the use of money, regardless of whether it must be paid or received in relation to a debt, in connection with a deposit or in accordance with a financial leasing contract, sale with payment in instalments or other sale with deferred payment.

Tax regime applicable in relation to the Bonds

The following information represents a summary of the tax regime applicable to Bonds issued by a non-resident of Romania (such as the Issuer) on the Romanian capital market, according to the Fiscal Code, the Methodological Norms for the enforcement of the Fiscal Code, approved through the Decision no. 1/2016, as amended and supplemented, and the relevant secondary legislation.

Under the provisions of the Fiscal Code, income derived from Bonds is generally subject to tax considering the following:

(a) tax on interest income associated to the Bonds; and

(b) tax on capital gains obtained from transfer of the Bonds.

The applicable taxes due in Romania are established based on the quality (*e.g.*, individual, legal entity) and residence (*i.e.*, resident or non-resident) of the Bondholders.

Resident Bondholders

Resident individuals

Interest income derived in relation to the Bonds by Bondholders who are Romanian resident individuals, should qualify as income obtained from abroad, considering that the interest is paid by a non-resident (*i.e.*, the Issuer) who does not have a permanent establishment in Romania, and is subject to 10 percent income tax in Romania.

The Bondholders have to declare the interest income derived from the Bonds by submitting with the Romanian tax authorities the Sole Tax Return for Realised Income by the 15th March of the year following the one in which the income was obtained. In case of the Bonds issued in EUR, the amount of income obtained by the Bondholders is converted in RON using the annual average exchange rate communicated by the National Bank of Romania in the year in which the income was obtained. The tax due in connection with the interest income derived from the Bonds should be assessed by the individual and should be paid to the Romanian state budget by the 15th March of the year following the one in which the income was obtained.

No withholding tax is applicable in Romania.

According to the Romanian fiscal legislation, any tax that was paid or withheld in other jurisdictions in connection with the interest income derived from the Bonds for the same period, can be deducted from the tax due in Romania for the respective interest income (*i.e.*, credit method for avoidance of double taxation if such method is provided by the applicable double tax treaty). Such tax deduction is established by the Bondholders and should not exceed the tax due in Romania for the respective interest income (*i.e.*, 10 percent).

In case the double tax treaty concluded between Romania and the state where such tax was due and paid provides for the exemption method for the avoidance of double taxation, the interest income may be exempt from income tax in Romania (declaration liability subsists).

The credit method or the exemption method for the avoidance of double taxation, as the case, can be applied provided that (i) there is a double tax treaty concluded between Romania and the state where the tax (for which a tax deduction/tax exemption is requested) was paid; (ii) and the Bondholder submits with the Romanian tax authorities the necessary documentation, attesting the payment of the tax in the other state for the interest income.

Capital gains derived from the transfer of the Bonds by Bondholders who are Romanian resident individuals, should qualify as income obtained from abroad, considering that the Bonds are issued by a non-resident (*i.e.*, the Issuer) who does not have a permanent establishment in Romania, and is subject to 10 percent income tax in Romania. The profit/loss obtained by the Bondholders from the transfer of the Bonds represents the positive/negative difference between the sale price and the purchase price, reduced, where appropriate, by the costs of the transaction, proved with appropriate documents.

When the transaction is carried out through an intermediary which is tax resident in Romania, the determination of the gain / loss on the transfer of Bonds is made by the latter at transaction date, based on supporting documents. Each intermediary, investment management company or self-managed investment company has the following obligations: a) to calculate the gain / loss for each transaction carried out for the taxpayer or on an annual basis, as the case may be; b) to communicate to each taxpayer the information on the total gains / losses, in written form, for the transactions carried out during the tax year, by 31 January inclusive of the current year for the previous year; c) to submit annually, by 31 January inclusive of the current year for the previous year, to the competent tax authority an informative statement regarding the total gains / losses, for each taxpayer.

The Bondholders have to declare the capital gains derived from the Bonds by submitting with the Romanian tax authorities the Sole Tax Return for Realised Income by the 15th March of the year following the one in which the income was obtained. In case of the Bonds issued in EUR, the amount of income obtained by the Bondholders is converted in RON using the annual average exchange rate communicated by the National Bank of Romania in the year in which the income was obtained. The tax due in connection with the capital gains derived from the Bonds should be assessed by the individual and should be paid to the Romanian state budget by the 15th March of the year following the one in which the income was obtained.

The annual net loss established in the Sole Tax Return for Realised Income can be recovered from the annual net gains obtained over the next seven consecutive tax years, under the conditions provided by the Fiscal Code.

No withholding tax is applicable in Romania.

According to the Romanian fiscal legislation, any tax that was paid or withheld in other jurisdictions in connection with the capital gains derived from the Bonds can be deducted from the tax due in Romania for the respective capital gains (*i.e.*, credit method for avoidance of double taxation). Such tax deduction is established by the Bondholders and should not exceed the tax due in Romania for the respective capital gains (*i.e.*, 10 percent).

In case the double tax treaty concluded between Romania and the state where such tax was due and paid provides for the exemption method for the avoidance of double taxation, the capital gains may be exempt from income tax in Romania (declaration liability subsists).

The credit method or the exemption method for the avoidance of double taxation, as the case, can be applied provided that (i) there is a double tax treaty concluded between Romania and the state where the tax (for which a tax deduction/tax exemption is requested) was paid; (ii) and the Bondholder submits with the Romanian tax authorities the necessary documentation, attesting the payment of the tax in the other state in respect of capital gains.

Individuals who are contributors to the SHIS who estimate/actually derive interest income or capital gains may be required to pay also the individual social health insurance contribution (at present, 10% applied on the amount of 12 national gross minimum salaries: currently totalising RON 22,800 – to be updated). This applies if the individuals estimate/actually derive cumulated annual income from (i) investments (e.g., interest, dividends, capital gains, liquidation proceeds , etc.), (ii) independent activities, (iii) intellectual property rights (if applicable), (iv) partnership with a legal person, (v) rental and leasing activities, (vi) agricultural, forestry and fisheries activities, (vii) other sources, which, in total, are at least equal to 12 national gross minimum salaries for a year (currently RON 22,800). When establishing whether the interest income and/or capital gains is at least equal to the annual threshold of at least 12 national gross minimum salaries, the amounts that shall be taken into account are the amounts actually received, in case of interest income, and/or the capital gains determined as the positive difference between the sale price and the purchase price, reduced, where appropriate, by the costs of the transaction, proved with appropriate documents.

Individuals estimating annual income from the categories mentioned above which is below the level of 12 national gross minimum salaries shall not owe, but may opt to pay, the social health insurance contribution for the current year, under certain conditions.

However, if individuals obtain a cumulated annual net income below the level of 12 national gross minimum salaries and in that year they did not have the status of an employee and did not fall into the categories of persons exempted from the payment of the social health insurance contribution, they owe the social health insurance contribution as per a calculation base equivalent to 6 national gross minimum salaries (to which the 10% rate applies) and submit the Sole Tax Return for Realised Income. The deadline for payment and submission of the tax return is until March 15 inclusive of the year following the year in which the income was obtained, for the final assessment of the social health insurance contribution.

The social health insurance contribution, when due, should be determined and declared by the individual who is a contributor to SHIS by submitting the Sole Tax Return for Estimated Income until 15 March inclusive of each year, for individuals carrying out activity during the year, respectively within 30 days from the beginning of the activity, for individuals starting an activity during the tax year. The individual who is a contributor to SHIS is required to submit the Sole Tax Return for Realised Income, for each fiscal year, until 15 March, inclusive, of the year following that for which the contribution is due.

The deadline for the payment of the social security contribution is until 15 March inclusive of the year following that for which the contribution is due. A bonus is granted to the individual who is a contributor to SHIS for the early payment of the social health insurance contribution. In 2018, a bonus of 5% of the estimated annual contribution fully paid until 15 December 2018 inclusive is granted.

Resident legal entities

Interest income in relation to the Bonds as well as capital gains from the transfer of the Bonds derived by Bondholders who are Romanian resident legal entities should be included in the Bondholder's regular income tax computation, as taxable items.

The liability to compute, declare and pay the tax related to the interest income and capital gains derived by the Bondholders, Romanian resident legal entities, in relation with the Bonds, stays with the Bondholders.

Depending on the applicable tax regime, the Bondholder, legal entity having its tax residence in Romania, could be subject to:

(a) 16 percent profits tax, applicable on the taxable profit determined according to the Fiscal Code; or to

(b) income tax applicable to the total taxable income derived by microenterprises, depending on the number of employees of the microenterprise (*e.g.*, one (1) percent – in case of minimum one (1) employee, three (3) percent – in case of no employees) with certain exceptions, as detailed under the Fiscal Code.

No withholding tax is applicable in Romania.

According to the Romanian fiscal legislation, any tax that was paid or withheld in other jurisdictions in connection with the interest income or capital gains derived from the Bonds can be deducted from the tax due in Romania for the respective interest income or capital gains, provided the Bondholder is a corporate income tax payer (*i.e.*, credit method for avoidance of double taxation if such method is provided by the applicable double tax treaty). Such tax deduction is not to exceed the tax due in Romania for the respective interest income (*i.e*., 16 percent). The credit is granted from the tax due in Romania for the year during which the tax was paid abroad.

The credit method for the avoidance of double taxation can be applied provided that (i) there is a double tax treaty concluded between Romania and the state where the tax (for which a tax deduction is requested) was paid; and (ii) the Bondholder submits with the Romanian tax authorities the necessary documentation, attesting the payment of the tax in the other state.

Resident pension funds

Investments made by privately managed pension funds without corporate status are not subject to profits tax or tax on microenterprises income in Romania, as each participant is liable for its own taxes. No withholding tax is applicable in Romania in this specific case. This applies in general for all fiscally transparent entities (e.g. associations, joint ventures, economic interest group, etc.).

Non-resident Bondholders

The interest income derived by non-resident Bondholders in connection to the Bonds should not qualify as Romanian sourced income considering that the interest is paid by a non-resident (*i.e.*, the Issuer), who does not have a permanent establishment in Romania. Therefore, no withholding tax is applicable in Romania.

Capital gains derived by non-resident Bondholders from the disposal of the Bonds, issued by a non-resident (*i.e.*, the Issuer), are not subject to withholding tax in Romania.

In case the income derived by the non-resident Bondholder is attributable to a Romanian permanent establishment, the respective income should be subject to tax in Romania considering the comments above regarding taxation at the level of resident Bondholders.

Conversion of amounts expressed in foreign currency (EUR) into RON for tax purposes

For converting the amounts representing interest income or capital gains from a foreign currency (EUR) into RON for determining the level of taxes due in Romania, the following rules shall apply:

Individual investors resident in Romania

- for converting the interest income from EUR into RON, the foreign exchange rate communicated by NBR valid at the date of interest payment should be used;
- for converting the income from disposal of Bonds from EUR into RON, the foreign exchange rate communicated by NBR valid at the date of the transaction should be used for determining the income at disposal date.

Legal entity investors resident in Romania

Bondholders, legal entities resident in Romania, holding and disposing of the Bonds having the obligation to maintain accounting records in Romania, should observe the rules imposed by the applicable accounting regulations in relation with the foreign exchange rate to be used for converting the amounts from EUR into RON and regarding to potential foreign exchange differences to be recognised for accounting purposes.

SUBSCRIPTION AND SALE

General information about the Offering

The Offering is addressed only to investors in Romania who are "qualified investors" within the meaning of article 2(1)(e) of the Prospectus Directive ("**Qualified Investors**") and/or to less than 150 natural or legal persons, other than Qualified Investors per member state, and to such other investors in Romania or such other member states of the European Economic Area where it is possible to do so, in reliance of Regulation S and without the need to publish a prospectus or undertake any other formalities whatsoever under applicable law in reliance on article 3(2) of the Prospectus Directive, to the extent, and only provided that, an investment in the Bonds does not constitute a violation of any applicable law by such investors (the "**Eligible Investors**"). In addition, in the United Kingdom, the offering of the Bonds described herein is directed only at Qualified Investors (x) who have professional experience in matters relating to investments falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Financial Promotion Order**") and Qualified Investors falling within article 49(2)(a) to (d) of the Financial Promotion Order and (y) to whom it may otherwise lawfully be directed

Eligible Investors who intend to invest in the Bonds must be aware of, and comply with the laws, restrictions and limitations applicable to the Offering in their jurisdiction and the restrictions and limitations set out in "*General information*" below. By investing in the Bonds, investors undertake any liability arising in the event that such investment is deemed unlawful under their country of residence.

In consideration of the Issuer's status as international organization, the Romanian Financial Supervisory Authority has issued in 2015 a written confirmation regarding the exemption of the Issuer from the obligation to prepare and publish a prospectus, within the meaning of the Prospectus Directive, the Capital Market Law and the relevant secondary legislation, with respect to potential offerings of bonds on the Romanian market and the admission to trading on the Regulated Spot Market of the Bucharest Stock Exchange of such bonds. For the avoidance of doubt, this Offering Circular does not purport to be and should not be construed as a prospectus, within the meaning of the Prospectus Directive, the Capital Market Law or the relevant secondary legislation.

Offering Date

Eligible Investors may subscribe for the Bonds on the Offering Date *i.e.* 11 October 2018 (from 10:00 to 18:00 Romanian time).

Proposed timetable of the Offering

Information on the proposed timetable of the Offering is set forth in the table below. Such information is for reference purposes only and should not be construed as a binding commitment or undertaking by the Issuer or the Managers to comply with the indicative dates below. The timetable of the Offering may be subject to change. Certain events provided therein are beyond the control of the Issuer. The Issuer, in agreement with the Managers, reserves the right to change the below timetable for the Offering, including the Offering Date. Information about any changes to the proposed timetable of the Offering will be notified to investors in accordance with "*Terms and conditions of the Bonds*" above. For the avoidance of doubt, any change in any of the dates set forth in the table below shall neither require nor be construed as an amendment to the Offering Circular or the Conditions.

9 October 2018 **(P)**	Publication of the Offering Circular on the Issuer's web site https://www.iib.int/en and on each Manager's website http://www.btcapitalpartners.ro, https://www.ing.ro and https://www.brd.ro/en, respectively
9 October 2018 – 10 October 2018, by 15:00 Romanian time (expected time) **(P+1 BD – P+2 BD)**	Bookbuilding process for Eligible Investors ("**Offering Period**")
10 October 2018, between 15:00 (expected time) and 17:00 Romanian time **(P+2 BD)**	Determination of the Interest Rate

10 October 2018, between 15:00 (expected time) and 17:00 Romanian time **(P+2 BD)**	Allocation of the Bonds
10 October 2018, between 17:00 and 19:00 Romanian time **(P+2 BD)**	Publication of the Pricing Notification on the Issuer's web site https://www.iib.int/en, on each Manager's website http://www.btcapitalpartners.ro, https://www.ing.ro and https://www.brd.ro/en, respectively, and on the website of the Bucharest Stock Exchange www.bvb.ro
11 October 2018 **(P+3 BD)**	Offering Date
11 October 2018 **(P+3 BD)**	Transaction Date *i.e.*, the date on which trades in relation to the Bonds are executed through the Bucharest Stock Exchange system
15 October 2018 **(P+5 BD)**	Issue Date *i.e.*, the date on which the Bonds are issued and delivered to the Bondholders pursuant to the Conditions (see "*Terms and conditions of the Bonds*")
18 October 2018 **(P+8 BD)**	First day of trading of the Bonds on the Regulated Spot Market of the Bucharest Stock Exchange

Establishment of the principal value, Interest Rate and maturity of RON Bonds and EUR Bonds

For the purpose of gauging investor interest for RON Bonds and EUR Bonds, a bookbuilding process shall be carried out by the Managers among Eligible Investors, on 9 October and 10 October 2018. During the bookbuilding process, the Managers will evaluate the sensitivity of demand for the Bonds from the Eligible Investors, depending on denomination (RON/EUR), interest rate and maturity.

For such purposes, Eligible Investors will be required to specify the number of RON or EUR Bonds which they would be prepared to acquire, the related interest rate at which they would be prepared to acquire such Bonds within an indicative range specified by the Managers as well the tenor of such Bonds that they would be prepared to acquire.

The minimum and/or maximum principal value, the maturity, as well as the Interest Rate, of each of the RON Bonds and EUR Bonds shall be established by the Issuer, in consultation with the Managers, on the basis of the bookbuilding results and shall be notified to investors through the Pricing Notification published on the Issuer's web site https://www.iib.int/en/, on each Manager's website http://www.btcapitalpartners.ro, https://www.ing.ro and https://www.brd.ro/en, respectively, and on the website of the Bucharest Stock Exchange www.bvb.ro on 10 October 2018.

Subscription documents

Eligible Investors may subscribe for the Bonds on the Offering Date, during 10:00 and 18:00 Romanian time, through the Managers or Eligible Participants.

"Eligible Participants" means any Participants (other than the Managers) who (i) have signed an irrevocable and unconditional undertaking to observe the provisions of this Offering Circular, the Pricing Notification and the applicable law, in the form made available by the Managers (the "Engagement Letter") and (ii) have transmitted the Engagement Letter to BTCP, in the form agreed therewith.

In case an Eligible Investor has concluded an investment services agreement with any Manager or an Eligible Participant, such investor may validly subscribe for Bonds on the basis of orders given as a regular investment services business and by any means of communication provided by such an agreement, without being required to submit any subscription form or identification documentation.

In all other cases in which an Eligible Investor has not concluded an investment services agreement with a Manager or an Eligible Participant, such investor may validly subscribe for Bonds through any Manager or Eligible Participant, by filling-in and signing the subscription form, in two original counterparts, accompanied by the Payment Evidence and such other documents as the Manager or the respective Eligible Participant may require for

fulfilling its obligation to observe "*know your customer*" rules and client identification procedures, in accordance with its own internal procedures. All documents submitted by the investors in relation to their subscription of Bonds shall be in English or Romanian, or accompanied by a notarized translation of such documents into English or Romanian.

The Managers and the Eligible Participants shall accept, validate, transmit and execute subscriptions/purchase orders into the Bucharest Stock Exchange electronic system in accordance with their internal regulations and the rules regarding the management of settlement risks and the requirements provided in this Offering Circular and the applicable law.

Subscription procedures

By subscribing for Bonds, each Eligible Investor confirms having read this Offering Circular, having unconditionally accepted the terms and conditions set out in "*Terms and conditions of the Bonds*" above and having made the subscription according to the terms included in this Offering Circular and the applicable law and warrants to the Issuer and the Managers that he/ she / it is an Eligible Investor (within the definition set forth in this Offering Circular) which may lawfully subscribe the Bonds (without being subject to any restriction or limitation) under his/ her/ its jurisdiction of residence. Any subscription made in breach of this Offering Circular or in breach of applicable law shall be invalid and shall be cancelled.

The Issuer, in consultation with the Managers, will determine, at its/their sole discretion, those Eligible Investors to whom invitations to submit a subscription order for the Bonds will be sent by the Managers. Each Eligible Investor may submit one or several subscription orders, in accordance with the procedures set forth herein.

No minimum subscription requirements, other than those applicable as per the provisions of article 3(2) of the Prospectus Directive (in case an Eligible Investor subscribes pursuant to an exception thereunder which requires a minimum amount of the subscribed securities) applies to Eligible Investors. Subscriptions of fractions of Bonds are not permitted and any subscription for a fraction of a Bonds shall be deemed invalid. Multiple subscriptions orders must be placed with the same Eligible Participant or Manager only.

Participants may not accept register, process and/or validate subscriptions prior to the execution and submission to the BTCP of a signed copy of the Engagement Letter. . Any placement of subscriptions orders with participants who are not Eligible Participants shall not be taken into consideration and the Issuer and the Managers shall have no liability whatsoever in relation thereto. Each Eligible Participant must comply and must ensure that its internal systems allow it to comply, with the requirements set out in this Offering Circular, the Pricing Notification and the applicable law including, without being limited to, the requirements regarding the availability of funds and the settlement of the transactions carried out by the respective Eligible Participant. The Managers will not be liable for any non-compliance with the requirements set out in this Prospectus by any Eligible Participant.

The Managers and the Eligible Participants shall process, validate and register all the received subscriptions, provided that subscriptions meet the validation conditions, by entering the subscription order related to the subscription in the Bucharest Stock Exchange electronic system. The subscription orders shall be registered in the Bucharest Stock Exchange electronic system by the Managers and the Eligible Participants only if the relevant Eligible Investor provides the subscription documents (if the case) and one of the documents below by the end of the Offering Date (each a "**Payment Evidence**"):

1) evidence of payment by the investor of the Nominal Value multiplied by the number of subscribed Bonds or the Issue Price for Tap Bonds, as the case may be, *via* bank transfer in one of the following accounts: RO96BTRL01301202925690XX in RON and RO45BTRL01304202925690XX in EUR opened with Banca Transilvania S.A. Cluj or RO52BRDE427SV00624894270 in RON and RO85BRDE427SV00636844270 in EUR opened with BRD – Groupe Société Générale S.A. (each, a "**Collection Account**" and together, the "**Collection Accounts**"), provided that such transfer is made no later than the end of the Offering Date;

   The payment order must contain the identification code and name of the Eligible Investor. The account number to be filled in by an Eligible Investor in the subscription form (if applicable) must be the number of the account out of which the subscription amount is effectively transferred to a Collection Account. No deposits in cash directly to a Collection Account, or the client accounts are accepted. The amounts

transferred by Eligible Investors in the relevant Collection Accounts will not bear interest in favour of such Eligible Investors.

The amounts credited in a Collection Account for the subscribed Bonds does not include the bank fees or other applicable charges. The investors must take into consideration the charges applicable to bank transfers and duration of bank transfers.

No Managers shall be held responsible if, for reasons outside its control, a Collection Account is not effectively credited with the amounts representing the value of the subscriptions by the end of the Offering Date;

or

2) a settlement commitment statement issued by a custodian agent undertaking the responsibility for the settlement of the subscribed Bonds;

or

3) letter of bank guarantee issued by a credit institution from the European Union for the purpose of covering the settlement risk undertaken by the Manager or the relevant Eligible Participant with whom the subscription order is placed;

or

4) written statement from the Manager or the relevant Eligible Participant with whom the subscription order is placed undertaking responsibility for the settlement for the amount representing the aggregate Nominal Value of the Bonds subscribed by the respective Eligible Investor or the Issue Price for Tap Bonds, as the case may be in accordance with the limitations imposed by the Romanian Financial Supervisory Authority.

If the amount transferred by an Eligible Investor into the relevant Collection Account is higher than the amount represented by the Nominal Value of the Bonds multiplied by the number of Bonds or the Issue Price for Tap Bonds, as the case may be, indicated by that Eligible Investor in the subscription form or purchase order given to a Manager or an Eligible Participant (in case the Eligible Investor has concluded an investment agreement with a Manager or the respective Eligible Participant), the subscription will only be validated for the number of Bonds mentioned in the subscription form or in the respective purchase order, and the investor shall be reimbursed with the remaining amount within five business days after the Offering Date.

Any reimbursements to investors shall be less of any bank transfer commissions and any applicable commissions of the relevant market institutions, to the bank account indicated by each investor in the subscription form submitted in relation to the subscription of Bonds, in the investment services agreement or as otherwise agreed with the Managers. No interest shall be payable to investors in respect of such amounts. If an investor has indicated more than one account for the reimbursement of any such amounts, the Managers reserve the right to pay the whole amount to be reimbursed to only one of the accounts indicated by the investor.

In circumstances where the amount transferred to the Collection Account or indicated in the commitments mentioned under items 2)-4) above is lower than the amount represented by the Nominal Value multiplied by the number of Bonds or the Issue Price for Tap Bonds, as the case may be, indicated by that Eligible Investor in the subscription form or purchase order given to the Manager or an Eligible Participant (in case the Institutional Investor has concluded an investment agreement with a Manager or the respective Eligible Participant), the subscription form or the purchase order shall be deemed valid for the number of Bonds corresponding to the amount for which valid Payment Evidence has been provided, calculated by dividing the such amount to the Nominal Value or the Issue Price for Tap Bonds.

The investors must take into consideration bank fees, charges applicable to bank transfers and duration of bank transfers.

Allocation of the Bonds

The allocation of Bonds shall be made by the Issuer in consultation with the Managers following the completion of the bookbuilding process among Eligible Investors, on 9 October 2018 and 10 October 2018.

Eligible Investors shall thereafter be invited to subscribe for Bonds, on the Offering Date, based on the results of such allocation and in accordance with "*Subscription procedures*" above.

Investors also acknowledge and agree that they cannot refuse the Bonds allocated to them in accordance with the foregoing and shall have no right to contest or oppose such allocation. The allocation of the Bonds as described herein is mandatory and is binding for the Eligible Investors.

Transaction

On the Offering Date, the subscription orders for the Bonds shall be registered in the system of the Bucharest Stock Exchange, exclusively in accordance with the allocations made by the Issuer in consultation with the Managers, provided that the corresponding subscriptions are valid and the Payment Evidence is received.

Offering results

The results of the Offering will be published in Romanian and/or English, as the case may be on the Issuer's web site https://www.iib.int/en/, on each Manager's website http://www.btcapitalpartners.ro, https://www.ing.ro and https://www.brd.ro/en, respectively, and on the website of the Bucharest Stock Exchange www.bvb.ro.

Withdrawal of subscriptions

The subscriptions made on the Offering Date are irrevocable and may not be withdrawn or amended by the Eligible Investors.

Listing on the Bucharest Stock Exchange

The Bucharest Stock Exchange has issued an approval in principle for the admission of the Bonds to trading on the Regulated Spot Market of the Bucharest Stock Exchange (in Romanian: *piata reglementata*). After the completion of the Offering, the Issuer intends to apply to the Bucharest Stock Exchange for obtaining the final approval for the admission of the Bonds to trading on the International Bonds tier of the Regulated Spot Market of the Bucharest Stock Exchange. Subject to the final approval of the Bucharest Stock Exchange, the listing of the Bonds on the Regulated Spot Market of the Bucharest Stock Exchange is expected to occur on or about 18 October 2018.

The symbol under which Bonds are expected to trade shall be announced through the Pricing Notification to be published on the Issuer's web site https://www.iib.int/en, on each Manager's website http://www.btcapitalpartners.ro, https://www.ing.ro and https://www.brd.ro/en, respectively, and on the website of the Bucharest Stock Exchange www.bvb.ro on 10 October 2018.

The Issuer may apply for admission of the Bonds to trading on other regulated markets in the European Union.

SETTLEMENT

General

Transfers of securities (other than derivatives) admitted to trading on the Bucharest Stock Exchange are cleared and settled through the clearance-settlement system (RoClear) managed by the Central Depository, in accordance with applicable laws and regulations.

The Central Depository is a joint stock company organized and functioning in accordance with the Romanian law, having its registered office at 34-36 Carol I Blvd., 3rd, 8th, and 9th floors, Bucharest, 020922, 1st District, Romania, sole registration code RO9638020, registered with the Trade Registry under no. J40/5890/1997, which is authorised and supervised by the Romanian Financial Supervisory Authority and provides depository, registrar, clearing and settlement and other related services in connection with securities (other than derivatives) traded on the Bucharest Stock Exchange.

The ownership right over securities listed on the Bucharest Stock Exchange is transferred to the purchaser on the settlement date. The settlement is generally effected on a T+2 basis by debiting/crediting the relevant accounts, on a delivery versus payment basis (*i.e.,* the securities being delivered only if the corresponding purchase price is paid).

By way of exception, there are certain cases in which the Central Depository may operate direct transfers of ownership over securities listed on the Bucharest Stock Exchange, subject to the conditions set forth in the regulations of the Central Depository, as a result, among others, of: (i) a final judgment issued by a court of law; (ii) succession; or (iii) other transfers, in accordance with applicable laws and regulations.

Although the foregoing sets out the procedures of the Romanian Central Depository which shall, in principle, apply to transfers of Bonds after their admittance to trading on the Regulated Spot Market of the Bucharest Stock Exchange, in certain cases, the Central Depository reserves the right to suspend or cancel the registration of an instruction, if there are any doubts with respect to its content, the authority of the person submitting such instruction or if it establishes that the provisions of its regulations or the related agreements have been breached, or to ignore instructions which contain errors or other vices or which are not duly executed by authorized persons. None of the Issuer, the Managers, or their respective agents will have any responsibility for the performance or failure to perform by the Central Depository or other Participants of their respective obligations under the rules, procedures and agreements governing their operations as at the date when such obligations are or should have been performed.

For a more detailed description of the settlement procedures applicable to the transfers of the Bonds within the Offering, see "*Subscription and sale*". Transfer restrictions relating to the Bonds are presented in "*General information – Selling and transfer restrictions*".

Registration of the Bonds

All classes of securities (other than derivatives) traded on a Romanian regulated market or alternative trading system, including the Bonds after their admission to trading on the Regulated Spot Market of the Bucharest Stock Exchange, are mandatorily deposited with the Central Depository for the purpose of ensuring that securities operations are performed in a centralised manner and that unitary records of such operations are maintained. All securities accepted in the Central Depository's system are dematerialised and evidenced by book entry.

In view of their admission to trading on the Regulated Spot Market of the Bucharest Stock Exchange, all Bonds will be registered with the Romanian Financial Supervisory Authority and with the Central Depository. The Central Depository will maintain the record of the aggregate holdings of Bonds.

The Issuer will not impose any fees in respect of holdings of the Bonds; however, holders of Bonds may incur fees normally payable in respect of the maintenance and operation of accounts in the system of the Central Depository.

Listing on the Regulated Spot Market of the Bucharest Stock Exchange

The admission to trading and the listing of the Bonds on the Bucharest Stock Exchange requires, *inter alia*: (i) the signing of an agreement between the Issuer and the Central Depository related to the registration of the Bonds in the system operated by the Central Depository; (ii) the signing of the commitment for the admission and maintenance to trading by the Issuer; and (iii) the approval of the Bucharest Stock Exchange management board (in Romanian:

Consiliul Bursei), based on the opinion issued in this respect by the Bucharest Stock Exchange Commission for the Admittance to Trading.

After their admission to trading, the Bonds shall be listed on the International Bonds tier of the Regulated Spot Market of the Bucharest Stock Exchange.

The symbol under which Bonds are expected to trade shall be announced through the Pricing Notification to be published on the Issuer's web site https://www.iib.int/en, on each Manager's website http://www.btcapitalpartners.ro, https://www.ing.ro and https://www.brd.ro/en, respectively, and on the website of the Bucharest Stock Exchange www.bvb.ro on 10 October 2018.

Title to the Bonds

Only persons that are Bondholders within the meaning set forth under Condition 4 "*Bondholders*" of the "*Terms and conditions of the Bonds*" section above will be recognised as owners of the Bonds and, therefore, entitled to the corresponding rights attached to the Bonds. Bondholders will be able to exercise their rights in accordance with the "*Terms and conditions of the Bonds*" section above and, if the case, subject to the contractual arrangements entered with the relevant Participant through which the Bonds are held and the applicable laws and regulations.

ICSDs

The Bonds may also be held through ICSDs, such as Clearstream or such other ICSD as may be announced through the Pricing Notification or to investors from time to time. In particular, as of the date hereof, Clearstream has either direct or indirect links with the Central Depository; an indirect link is normally maintained through a custodian that holds Bonds for ICDSs in a holding (nominee) account with the Central Depository.

Persons holding any Bonds in their accounts with an ICSD must only look to the relevant ICSD for the discharge of the obligations of the Issuer under the Bonds. Subject to the paragraphs below, such persons holding any Bonds through an ICSD may only exercise their rights against the Issuer through the relevant ICSD or the relevant custodian that holds such Bonds for such ICSD, whichever entity is registered as a holder of an account in relation to such Bonds with the Central Depository.

A person holding any Bonds through an ICSD may not have direct rights against the Issuer. Such rights, if any, will be always subject to the standard rules of procedure of the relevant ICSD (if so enabled thereunder) and the applicable laws.

It should be noted that the Issuer does not have any direct agreement with any ICSD to the effect that any links with the Central Depository will remain available as long as any Bonds remain outstanding. The Issuer does not have any direct means to ensure that such links will remain available and accepts no responsibility in respect of the information concerning any ICSD. No ICSD is under any obligation to perform or continue to perform under any clearing arrangements and such arrangements may be modified or discontinued by any of them at any time. The Issuer and the Managers will not, nor will any of their agents, have responsibility for the performance of the respective obligations of an ICSD or their respective participants. Investors wishing to use these clearing systems are advised to confirm the continued applicability of these arrangements.

GENERAL INFORMATION

Authorisations

The Issuer hereby confirms that, as of the Issue Date, it shall have obtained all consents, approvals and authorisations by its competent governance bodies in connection with the issue of the Bonds and the listing thereof on the International Bonds tier of the Regulated Spot Market of the Bucharest Stock Exchange.

Listing and trading

The Issuer shall apply for the admittance of the Bonds to trading on the International Bonds tier of the Regulated Spot Market of the Bucharest Stock Exchange. However, no assurance can be given that the Bonds will be admitted to trading on the Bucharest Stock Exchange.

The Issuer may also apply, if it so deems fit, for the admittance of the Bonds to listing, trading and/or quotation on any other listing authorities, stock exchanges, regulated markets and/or quotation systems.

Documents available for inspection

Copies of the agreements whereby the calculation agent(s) and the paying agent(s) are appointed in such capacity (capacities) in respect of the Bonds shall be available for inspection by the Bondholders at the offices of the calculation agent(s) mentioned herein or otherwise notified to the Bondholders in accordance with Condition 16.2 of the "*Terms and conditions of the Bonds*" section above, during normal business hours.

As of the date of this Offering Circular, BT Capital Partners S.A., a joint stock company incorporated under the laws of Romania, having its principal office at 74-76 Constantin Brancusi Street, Brancusi Business Center, ground floor, Cluj-Napoca, Cluj county, Romania, is appointed as Calculation Agent and Banca Transilvania S.A., a joint stock company incorporated under the laws of Romania, having its principal office at 8 George Baritiu Street, Cluj-Napoca, Cluj county, Romania, is appointed as Paying Agent.

Selling and transfer restrictions

The distribution of this Offering Circular and the offering, purchase or transfer of the Bonds in certain jurisdictions may be restricted by law and, therefore, persons into whose possession this Offering Circular comes or which otherwise intend to subscribe for, purchase or otherwise transfer the Bonds should inform themselves about and observe any restrictions, including those set out in the paragraphs which follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. By subscribing for or purchasing the Bonds, whether in this Offering or subsequently, investors assume any liability arising in the event that such subscription or purchase is deemed unlawful under the country of residence.

This Offering Circular does not constitute an offer to subscribe for or purchase any of the Bonds.

No action has been or will be taken in any country or jurisdiction that would permit a public offering of the Bonds or possession or distribution of this Offering Circular (or any other offering or publicity material relating to the Bonds) in any country or jurisdiction where action for that purpose is required or doing so may be restricted by law.

Accordingly, the Bonds may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Bonds may be distributed or published in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

This offering of the Bonds described herein is available only to investors in Romania who are "qualified investors" within the meaning of article 2(1)(e) of the Prospectus Directive and/or to less than 150 natural or legal persons, other than qualified investors per member state and to such other investors in Romania or such other member states of the European Economic Area where it is possible to do so, in reliance of Regulation S and without the need to publish a prospectus or undertake any other formalities whatsoever under applicable law, in reliance on article 3(2) of the Prospectus Directive, to the extent, and only provided that, an investment in the Bonds does not constitute a violation of any applicable law by such investors. In addition, in the United Kingdom, the offering of the Bonds described herein is directed only at Qualified Investors (x) who have professional experience in matters relating to

investments falling within article 19(5) of the Financial Promotion Order and Qualified Investors falling within article 49(2)(a) to (d) of the Financial Promotion Order and (y) to whom it may otherwise lawfully be directed.

In particular, the Bonds have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction and, accordingly, may not be offered or sold within the United States.

Each purchaser of the Bonds outside the United States, by accepting delivery of this Offering Circular, will be deemed to have represented, agreed and acknowledged that it complies with all applicable laws and regulations of the United States. The Issuer will not recognise any resale or other transfer, or attempted resale or other transfer, in respect of the Bonds made other than in compliance with the restrictions under any applicable laws and regulations of the United States.

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International Investment Bank

Consolidated financial statements

Year ended 31 December 2015
Together with Independent Auditors' Report

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Independent auditors' report

To the Council of the International Investment Bank

We have audited the accompanying consolidated financial statements of the International Investment Bank (hereinafter the "Bank") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

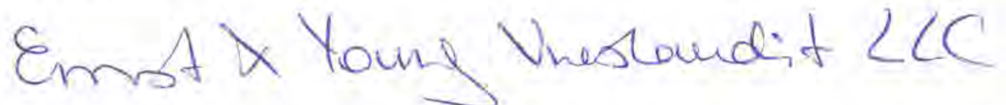
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



15 March 2016

Moscow, Russia

A member firm of Ernst & Young Global Limited

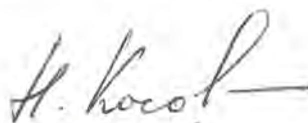
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

(Thousands of Euros)

	Note	31 December 2015	31 December 2014
Assets			
Cash and cash equivalents	5	59,519	65,918
Deposits with banks and other financial institutions	6	100,392	34,371
Financial assets at fair value through profit or loss	7	1,844	311
Available-for-sale investment securities	8	93,031	24,973
Available-for-sale investment securities pledged under repurchase agreements	8	23,028	13,903
Held-to-maturity investment securities	9	50,034	81,000
Held-to-maturity investment securities pledged under repurchase agreements	9	73,194	42,634
Long-term loans to banks	10	140,597	132,032
Loans to customers	11	165,742	108,276
Investment property	12	33,819	52,879
Property and equipment	13	66,393	53,207
Other assets	14	1,810	2,028
Total assets		**809,403**	**611,532**
Liabilities			
Due to banks and other financial institutions	15	113,373	58,669
Current customer accounts		7,430	4,788
Financial liabilities at fair value through profit or loss	7	29,898	21,705
Long-term loans of banks	16	44,187	20,540
Debt securities issued	17	212,724	112,759
Other liabilities	14	4,088	3,656
Total liabilities		**411,700**	**222,117**
Equity	20		
Subscribed capital		1,300,000	1,300,000
Callable capital		(996,947)	(1,027,382)
Paid-in capital		**303,053**	**272,618**
Revaluation reserve for available-for-sale investment securities	18	(1,664)	(999)
Revaluation reserve for property and equipment	3	31,453	35,095
Foreign currency translation reserve		(120)	(224)
Retained earnings less net income for the year		62,925	78,687
Net income for the year		2,056	4,238
Total equity		**397,703**	**389,415**
Total equity and liabilities		**809,403**	**611,532**

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

Nikolay Kosov  Chairman of the Board

Eugeny Atanassov Head of the Financial Department

15 March 2016

The accompanying notes 1-30 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2015

(Thousands of Euros)

	Note	*2015*	*2014*
Financial result from continuing operations			
Interest income	21	27,132	16,799
Interest expenses	21	(17,744)	(4,777)
Net interest income		**9,388**	**12,022**
Allowance for impairment of loans to customers	11	(6,166)	(3,572)
Net interest income after allowance for loan impairment		**3,222**	**8,450**
Fee and commission income		548	42
Fee and commission expense		(133)	(117)
Net fee and commission income/(expense)		**415**	**(75)**
Net losses from dealing in foreign currencies and operations with foreign currency derivatives		(11,963)	(17,993)
Net gains from revaluation of assets and liabilities in foreign currencies		22,983	20,354
Net gains from available-for-sale investment securities	21	3,204	5,165
Income from lease of investment property	12	5,214	8,116
Income from revaluation of investment property	12	(2,500)	257
Revenues from sales of inventory		–	3,569
Other expenses		(296)	(225)
Net non-interest income		**16,642**	**19,243**
Operating income		**20,279**	**27,618**
Reversal of allowance/(allowance) for impairment of other assets	14	89	(1,730)
General and administrative expenses	22	(16,908)	(16,931)
Cost of inventories sold		–	(4,305)
Other operating expenses		(1,404)	(414)
Operating expenses		**(18,223)**	**(23,380)**
Net income for the year		**2,056**	**4,238**

The accompanying notes 1-30 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2015

(Thousands of Euros)

	Note	*2015*	*2014*
Net income for the year		**2,056**	**4,238**
Other comprehensive income/(loss)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods			
Net unrealized losses on available-for-sale investment securities		(665)	(1,213)
Translation differences		104	995
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		**(561)**	**(218)**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation of property and equipment	13	(3,642)	1,720
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**(3,642)**	**1,720**
Other comprehensive (loss)/income		**(4,203)**	**1,502**
Total comprehensive (loss)/income for the year		**(2,147)**	**5,740**

The accompanying notes 1-30 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

(Thousands of Euros)

	Subscribed capital	*Callable capital*	*Revaluation reserve for available-for-sale investment securities*	*Revaluation reserve for property and equipment*	*Foreign currency translation reserve*	*Retained earnings*	*Total equity*
At 31 December 2013	**1,300,000**	**(1,058,685)**	**214**	**33,375**	**(1,219)**	**78,687**	**352,372**
Profit for the year	–	–	–	–	–	4,238	**4,238**
Other comprehensive loss for the year	–	–	(1,213)	1,720	995	–	**1,502**
Total comprehensive income	–	–	**(1,213)**	**1,720**	**995**	**4,238**	**5,740**
Contributions to capital (Note 18)	–	31,303	–	–	–	–	**31,303**
At 31 December 2014	**1,300,000**	**(1,027,382)**	**(999)**	**35,095**	**(224)**	**82,925**	**389,415**
Profit for the year	–	–	–	–	–	2,056	**2,056**
Other comprehensive (income)/loss for the year	–	–	(665)	(3,642)	104	–	**(4,203)**
Total comprehensive income	–	–	**(665)**	**(3,642)**	**104**	**2,056**	**(2,147)**
Contributions to capital (Note 18)	–	30,435	–	–	–	(20,000)	**10,435**
At 31 December 2015	**1,300,000**	**(996,947)**	**(1,664)**	**31,453**	**(120)**	**64,981**	**397,703**

The accompanying notes 1-30 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

(Thousands of Euros)

	Note	2015	2014
Cash flows from operating activities			
Interest, fees and commissions received from deposits and long-term loans to banks and other financial institutions, and loans to customers		17,498	8,495
Interest, fees and commissions paid		(1,497)	(1,342)
Realised gains less losses from dealing in foreign currencies and operations with foreign currency derivatives		(5,420)	3,426
Cash flows from lease of investment property		5,214	8,116
General and administrative expenses		(15,814)	(16,592)
Other operating expenses on banking operations		(932)	(426)
Cash flows from operating activities before changes in operating assets and liabilities		**(951)**	**1,677**
Net (increase)/decrease in operating assets			
Deposits with banks and other financial institutions		(76,379)	10,857
Long-term loans to banks		(5,904)	(70,127)
Loans to customers		(61,048)	(72,944)
Other assets		401	6,744
Net increase/(decrease) in operating liabilities			
Due to banks and other financial institutions		60,572	6,978
Current customer accounts		2,618	1,452
Other liabilities		135	(541)
Net cash flows from operating activities		**(80,556)**	**(115,904)**
Cash flows from investing activities			
Purchase of available-for-sale investment securities		(245,442)	(295,580)
Proceeds from sale and redemption of available-for-sale investment securities		166,802	284,823
Purchase of held-to-maturity investment securities		–	(7,139)
Proceeds from redemption of held-to-maturity investment securities		20,868	5,626
Investments in investment property		(33)	(154)
Acquisition of property and equipment		(2,764)	(1,817)
Net cash flows from investing activities		**(60,569)**	**(14,241)**
Cash flows from financing activities			
Long-term interbank financing raised		21,448	17,852
Long-term interbank financing repaid		(1,123)	(262)
Placement of bonds		184,399	131,070
Redemption of bonds		(78,725)	(1,846)
Contributions to capital		10,435	31,303
Net cash flows from financing activities		**136,434**	**178,117**
Effect of exchange rate changes on cash and cash equivalents		(1,708)	(2,099)
Net increase in cash and cash equivalents		**(6,399)**	**45,873**
Cash and cash equivalents, beginning		**65,918**	**20,045**
Cash and cash equivalents, ending	5	**59,519**	**65,918**

The accompanying notes 1-30 are an integral part of these consolidated financial statements.

(Thousands of Euros)

1. Principal activities

These consolidated financial statements include the financial statements of the International Investment Bank (the "Bank") and its subsidiaries. The Bank and its subsidiaries are hereinafter referred together as the "Group". The International Investment Bank is the parent company of the Group. The list of the Bank's subsidiaries is presented in Note 2.

The 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 on the Establishment of the International Investment Bank (the "Agreement") and the Statutes. The Agreement was ratified by the member countries of the Bank and registered with the Secretariat of the United Nations in December 1971. 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 Council of the Bank. The Bank also performs transactions with securities and foreign currency. The Bank operates from its office at 7 Mashi Poryvaevoi St., Moscow, Russia.

The Group had an average of 237 staff employees during 2015 (2014: 179).

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, International Investment Bank is not subject to the restrictive measures.

Despite the existing difficult international environment and the risk of unpredictable deterioration in 2015 of the financial climate in the country where the Bank‘s head office is located, the Bank continues to expand its operations.

- Hungary re-entered the Bank. At the 102nd meeting of the IIB's Council (Sofia, 20-21 November 2014), member countries unanimously approved the Hungary's re-entering the Bank. In May 2015, Hungary completed all the required domestic procedures and became a full-fledged member of the Bank by making a contribution to its share capital. At the end of 2015, Hungary's share in the IIB's paid-in capital was EUR 30 million.
- As a result of the Hungary's re-entering, the respective share of the Russian Federation fell below 50% and was 49.5%. The share of the EU countries grew up to 47%.
- The program for the additional capitalization of the Bank announced during the 99th meeting of the IIB's Council is about to be completed: in December 2015, Mongolia made its contribution of EUR 0.43 million.
- In April 2015, the Bank opened its first European regional office in Bratislava with the assistance of the Ministry of Finance of the Slovak Republic.
- The Banks continues to implement a new corporate governance structure and introduce the respective changes to its constituent documents: The Protocol on introducing changes to the Agreement on the Establishment of the IIB and the Statutes elaborated in May 2014 has been signed by all member countries, and the respective ratification procedures have been implemented.
- The Bank is assigned the following investment grade ratings: BBB- (outlook stable) by Fitch Ratings and Baa1 (outlook stable) by Moody’s. In October 2015, the Bank was assigned the A rating (outlook stable) by Dagong Global Credit Rating. The IIB became the first international financial institution that was rated by the Chinese agency.
- The Bank continues to improve its risk management system.
- The Bank's operations have been diversified on a country-by-country basis due to the implementation of projects practically in all member countries (or with their participation).
- Loan tools continue to undergo modification. For example, the Bank has focused on providing syndicated lending together with leading financial institutions. The first bank guarantee has been issued.
- In 2015, the IIB sold additional issues of its securities in Russia, completed offering procedures with regard to securities of previous issues, made the first national currency-denominated issue in Romania, received long-term loans from banks, including funds from Credit Suisse, soft financing from Eximbank Slovakia, and funds from Bulgarian partners.

(Thousands of Euros)

1. Principal activities (continued)

Member countries of the Bank

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

Member countries	*2015* %	*2014* %
Russian Federation	49.505	55.031
Republic of Bulgaria	13.926	15.481
Czech Republic	10.023	11.142
Hungary	9.899	–
Slovak Republic	7.088	7.880
Romania	6.089	6.769
Republic of Cuba	1.769	1.966
Socialist Republic of Vietnam	1.211	1.346
Mongolia	0.490	0.385
	100.000	**100.000**

In accordance with the Agreement, each member country of the Bank may withdraw from membership upon notice to the Council of the Bank at least six months in advance. In this case, the Bank must settle all obligations to the relevant member country.

The member countries of the Bank may vote at the meetings of the Council and each member country has one vote regardless of the size of its contribution to the Bank's capital.

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

In the member countries, the Bank is not subject to taxation and enjoys all 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

The member countries have experienced political and economic change, which has affected, and may continue to affect, the activities of enterprises operating in these countries. Consequently, operations in some member countries involve risks, which do not typically exist in developed markets.

The accompanying 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 consolidated financial statements.

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), approved by the International Accounting Standards Board.

Subsidiary

The Bank is a parent company of the Group, which owns CJSC IIB Capital (a 100% subsidiary established in 2012) as at 31 December 2014. The share capital of the subsidiary at its establishment amounted to RUB 10 thousand (EUR 250). In 2013, the Bank made an additional contribution to the share capital of the subsidiary in the amount of EUR 11,161 thousand. During 2015, the share capital of the subsidiary was decreased by EUR 7,138 thousand.

(Thousands of Euros)

2. Basis of preparation (continued)

Basis of measurement

These 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, available-for-sale financial instruments also stated at fair value, and buildings and investment property are stated at revalued amounts.

Preparation and presentation of financial statements

The financial year of the Group begins on 1 January and ends on 31 December.

Functional and presentation currency

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 consolidated financial statements are presented in thousands of Euros ("Thousands of Euros" or "EUR thousand"), unless otherwise indicated.

3. Summary of accounting policies

Changes in accounting policies

The Group has adopted the following amended IFRS and IFRIC which are effective for annual periods beginning on or after 1 January 2015:

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is not relevant to the Group, since the Group does not have defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition.
- A performance target must be met while the counterparty is rendering service.
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group.
- A performance condition may be a market or non-market condition.
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

The above definitions are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods, and thus these amendments do not impact on the Group's accounting policies.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This is consistent with the Group's current accounting policy, and thus this amendment does not impact the Group's accounting policy.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are "similar".
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Group has not applied the aggregation criteria in IFRS 8.12. The Group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in Note 25 to these consolidated financial statements, as the reconciliation is reported to the chief operating decision maker for the purpose of decision making.

IFRS 13 Fair Value Measurement

This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This is consistent with the Group's current accounting policy, and thus this amendment does not impact the Group's accounting policy.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. The Group recorded adjustments based on revaluation of the buildings owned by the Group during the current period.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

The Group is not a joint arrangement, and thus this amendment is not relevant for the Group and its subsidiaries.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Group does not apply the portfolio exception in IFRS 13.

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment does not impact the accounting policy of the Group.

Meaning of 'Effective IFRSs' – Amendments to IFRS 1

The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 had no impact on the Group, since the Group is an existing IFRS preparer.

Foreign currency transactions

The consolidated financial statements are presented in Euro, which is the Group's functional and presentation currency. Every currency except Euro is considered foreign currency. Transactions in foreign currencies are initially translated in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated income statement as "Net gains/(losses) from foreign currencies". Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Group's exchange rate on the date of the transaction are included in "Net gains/(losses) from dealing in foreign currencies".

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights (interest), or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognized at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognized in the consolidated income statement, and its share of movements in reserves is recognized in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealized gains on transactions between Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and amounts due from banks and other financial institutions, including reverse repurchase agreements, which mature within ninety days from the origination date and are free from contractual encumbrances.

Fair value measurement

The Group measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 24.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognized in profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in profit or loss when the investments are impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses from change in fair value being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognized in profit or loss.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Financial assets (continued)

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as cash equivalents, amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the separate statement of financial position. Securities borrowed are not recorded in the separate statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the separate income statement. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards and swaps in the foreign exchange market. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as net (losses)/gains from foreign currencies dealing.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair on the trading portfolio with changes in fair value recognized in profit or loss.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the borrowings are derecognized as well as through the amortization process.

Leases

Operating – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into general and administrative expenses.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Leases (continued)

Operating – Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the consolidated income statement over the lease term within net non-interest income on "Income from lease of investment property". The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Measurement of financial instruments at initial recognition

When financial instruments are recognized initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Group recognizes the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognizes that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that may be related to defaults.

Short-term and long-term amounts due from banks and other credit institutions and loans to customers

For amounts due from banks and other credit institutions, long-term loans to banks and loans to customers carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

If there is an objective evidence that an impairment loss exists, the amount of the loss is measured as the difference between the assets' value in the consolidated statement of financial position and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The value of the asset in the consolidated statement of financial position is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount of asset based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If amounts previously written off are later recovered, the recovery is credited to the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a financial asset is provided at a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude).

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the consolidated income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Group determines at each reporting date whether there is objective evidence that an instrument or a group of instruments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its acquisition cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition coast and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement – is reclassified from other comprehensive income to the consolidated income statement. Impairment losses on equity investments are not reversed through the separate income statement; increases in their fair value after impairment are recognized in other comprehensive income.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed through the consolidated income statements.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognized and the new loan is recognized in the consolidated statement of financial position.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Group uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in the consolidated statement of financial position where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

Property and equipment

Property and equipment are carried in the consolidated financial statements at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment, excluding buildings carried at revalued cost, as described below. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations of buildings are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the consolidated income statement, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of property and equipment (including self-constructed property and equipment) begins when it is available for use and is recognized in the consolidated income statement.

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	85
Equipment	3-7
Computers	3-6
Office furniture	5-10
Motor vehicles	4

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses, unless they qualify for capitalization.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Investment property

Investment property is a part of building held to earn rental income or for capital appreciation and which is not used by the Group or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Subsequent expenditure is subject to capitalization only when it is probable that future economic benefits associated with an asset will flow to the Group and it can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to buildings, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Intangible assets

Intangible assets include computer software.

Intangible assets acquired by the Group are recognized in the consolidated financial statements at their acquisition cost.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 3 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Assets classified as held for sale

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

The sale qualifies as highly probable if the Group's management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

The Group measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of the asset to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Equity

In accordance with amendments to IAS 32, *Financial Instruments: Presentation*, and IAS 1, *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*, that were issued in February 2008, participants' shares are recognized in equity and not in liabilities.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed in the consolidated financial statements, when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized in the consolidated financial statements:

Interest and similar income and expense

For all financial instruments measured at amortized cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

- *Other fee and commission income*

Fees earned for the provision of transaction services are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Fee and commission expense

Fee and commission expenses comprise commissions on securities transactions and commissions on cash settlement transactions. Commissions paid on purchase of securities classified as financial instruments at fair value through profit or loss are recognized in the consolidated income statement at the purchase date. Commissions paid on all other purchases of securities are recognized as an adjustment to the carrying amount of the instrument with corresponding adjustment to its effective yield.

Dividend income

Revenue is recognized when the Group's right to receive the payment is established.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Segment reporting

The reportable segments of the Group comprise the following operating segments: Credit and investment activity, Treasury, Other operations.

Standards issued but not yet effective

The standards issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

IFRS 9 becomes effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. The Group expects a significant impact on its equity due to adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue arising from lease contracts within the scope of IAS 17 *Leases*, insurance contracts within the scope of IFRS 4 *Insurance Contracts* and financial instruments and other contractual rights and obligations within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (or IFRS 9 *Financial Instruments*, if early adopted) is out of IFRS 15 scope and is dealt by respective standards.

Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles of IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity’s rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 becomes effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 *Leases* which replaces IAS 17 *Leases*. The standard introduces new requirements for recognition, measurement, presentation and disclosure of leases. The standard is effective for annual periods beginning on or after 1 January 2019.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 – Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

Amendments to IAS 27 – Equity Method in Consolidated Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their consolidated financial statements. Entities already applying IFRS and electing to change to the equity method in its consolidated financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its consolidated financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Group currently considers whether to apply these amendments for preparation of its consolidated financial statements. These amendments will not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognizes a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. In December 2015, the IASB decided to postpone the date of entry into force of the amendments for an indefinite period.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 1 – Disclosure Initiative

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1.
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated.
- That entities have flexibility as to the order in which they present the notes to financial statements.
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Annual improvements, 2012-2014 Cycle

These improvements are effective on or after 1 January 2016 and are not expected to have a material impact on the Group. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment must be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016, with earlier application permitted.

IFRS 7 Financial Instruments: Disclosures – servicing contracts

IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The amendment is effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 7 Financial Instruments: Disclosure – applicability of the offsetting disclosures to condensed interim financial statements

In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that "An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods". The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report.

The amendment removes the phrase "and interim periods within those annual periods", clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment must be applied retrospectively and is effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

IAS 19 Employee Benefits – regional market issue regarding discount rate

The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment is effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

IAS 34 Interim Financial Reporting – disclosure of information "elsewhere in the interim financial report"

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

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 consolidated financial statements, which have the most significant effect on the amounts recognized in the consolidated financial statements and the carrying amount of assets and liabilities in the following financial year. Estimates and assumptions are continuously assessed and are based on management experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant uses of judgments and estimates are as follows:

Allowance for impairment of loans and other financial assets carried at amortized cost

Financial assets are recorded in the Group's consolidated statement of financial position less allowances for impairment. The Group regularly reviews its financial assets to assess impairment. When assessing impairment losses, the Group uses its professional judgment in relation to objective evidences that future contractual cash flows on financial asset shall decrease. These evidences may include information on financial difficulties of the borrower or other observable data on adverse changes in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. The Group uses its professional judgment to adjust observable data for financial assets to reflect current circumstances. Impairment loss may be reversed only if a subsequent increase of estimated contractual cash flows can be objectively related to an event occurring after the impairment loss was recognized.

(Thousands of Euros)

4. Significant accounting judgments and estimates (continued)

Assumptions and estimation uncertainty (continued)

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. More details are provided in Note 24.

Impairment of available-for-sale equity securities

The Group determines that available-for-sale equity investment securities are impaired when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates, among other factors, the volatility of share prices. In addition, impairment may take place when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operating or financing cash flows.

Fair values of buildings and investment property

As disclosed in Note 3, the Group applies the fair value model with regard to investment property. Buildings included in fixed assets are stated at revalued amount.

As for buildings within property and equipment, the Group monitors the compliance of the present value of buildings with their fair value and performs revaluation to ensure that there are no significant differences. Changes in the fair value are recognized in other comprehensive income. The most recent revaluation of the Group's building was carried out as at 31 December 2015 by an independent firm of professional appraisers applying an appropriate valuation methodology and information on transactions with similar real estate objects on the local market. However, valuation results based on the above valuation technique may differ from the prices of actual transactions in the real estate market. Starting from 31 December 2015, the revalued building is depreciated in accordance with the remaining useful life.

As for investment property, the Group monitors changes in its fair value at each reporting date to ensure that the present value of investment property does not differ materially from its fair value. Changes in the fair value of investment property are recognized in the consolidated income statement. The most recent revaluation of the Group's investment property was carried out as at 31 December 2015 by an independent firm of professional appraisers applying an appropriate valuation methodology and information on transactions with similar real estate objects on the local market. However, valuation results based on the above valuation technique may differ from the prices of actual transactions in the real estate market. The Group believes that as at 31 December 2015, the fair value of investment property did not change significantly.

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

- Note 7 – Financial liabilities at fair value through profit or loss.
- Note 8 – Available-for-sale investment securities.
- Note 10 – Long-term loans to banks.
- Note 11 – Loans to customers.
- Note 12 – Investment property.
- Note 13 – Property and equipment.
- Note 19 – Contingencies and lending commitments.

(Thousands of Euros)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2015	*2014*
Cash on hand	**66**	**392**
Nostro accounts with banks and other financial institutions		
Credit rating AAA	–	11
Credit rating from A- to A+	21,106	13,377
Credit rating from BBB- to BBB+	3,059	25
Credit rating from BB- to BB+	350	–
Total Nostro accounts with banks and other financial institutions	**24,515**	**13,413**
Short-term deposits with banks:		
Term deposits with banks		
Credit rating from AA- to AA+	–	16,464
Credit rating from A- to A+	–	8,232
Credit rating from BBB- to BBB+	18,304	255
Credit rating from BB- to BB+	16,634	10,005
Credit rating from B- to B+	–	17,157
Total short-term deposits with banks	**34,938**	**52,113**
Cash and cash equivalents	**59,519**	**65,918**

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 comprise:

	2015	*2014*
Term deposits with banks		
Credit rating from A- to A+	15,067	–
Credit rating from BBB- to BBB+	–	3,479
Credit rating from BB- to BB+	6,049	432
Credit rating from B- to B+	79,276	30,460
Deposits with banks and other financial institutions	**100,392**	**34,371**

Amounts due from the National Bank of the Republic of Cuba

	2015	*2014*
Term deposits with the National Bank of the Republic of Cuba without credit rating	34,967	34,967
Less: allowance for impairment	(34,967)	(34,967)
Term deposits with the National Bank of the Republic of Cuba	**–**	**–**

Concentration of deposits with banks and other financial institutions

As at 31 December 2015, the Group had one counterparty (31 December 2014: one counterparty) accounting for over 20% of the Group's total deposits with banks and other financial institutions, except for deposits with the National Bank of the Republic of Cuba.

(Thousands of Euros)

7. Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss include derivative transactions. Derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions. Derivative financial instruments are either assets or liabilities depending on the fluctuations in the market which can have either favorable or unfavorable effect on these instruments. Thus, the fair value of derivative financial instruments may significantly change depending on potentially favorable or unfavorable conditions.

Foreign currency transactions

The table below shows the fair value of derivative financial instruments as at 31 December 2015 and 31 December 2014 and notional amounts of term contracts for the purchase and sale of foreign currency specifying contractual exchange rates.

	31 December 2015				
	Notional amount		*Weighted average*	*Fair value*	
	Purchase	*Sale*	*exchange rate*	*Assets*	*Liabilities*
Swaps	12,136,720 RUB'000	185,914 EUR'000	65.28	–	29,034
	110,300 RON'000	24,972 EUR'000	4.42	–	864
	61,000 EUR'000	64,982 USD'000	1.07	1,775	–
Term transactions	30,000 EUR'000	32,721 USD'000	1.09	69	–
Financial instruments at fair value through profit or loss				**1,844**	**29,898**

	31 December 2014				
	Notional amount		*Weighted average*	*Fair value*	
	Purchase	*Sale*	*exchange rate*	*Assets*	*Liabilities*
Swaps	3,700,000 RUB'000	67,565 EUR'000	54.76	–	16,494
Term transactions	1,930,050 RUB'000	30,000 EUR'000	64.34	–	4,155
	2,800 EUR'000	195,020 RUB'000	69.65	311	–
	33,000 EUR'000	41,345 USD'000	1.25	–	1,056
Financial instruments at fair value through profit or loss				**311**	**21,705**

Due to issuing bond loans denominated in currencies other than the Group's functional currency (Note 17), the Group concluded cross currency interest rate swaps and currency forwards on an arm's length basis with large international and Russian credit institutions. These swaps are used to regulate long-term currency risks of the Group. Payment netting is not applied to the parties' obligations in respect of interest and principal payments.

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 notional amounts indicate the volume of transactions outstanding at the end of the reporting period and are not indicative of the credit risk.

(Thousands of Euros)

7. Financial instruments at fair value through profit or loss (continued)

Foreign currency transactions (continued)

As at 31 December 2015 and 31 December 2014, the Group has positions in the following types of derivatives:

Forwards: Forwards 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 notional 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 EUR to RUB exchange rate.

8. Available-for-sale investment securities

Available-for-sale investment securities comprise:

	2015	*2014*
Owned by the Group		
Quoted debt securities		
Government bonds of member countries and bonds of regional governments:		
Eurobonds issued by governments of member countries	93,027	11,202
Bonds of regional governments	–	3,395
Government bonds of member countries and bonds of regional governments	**93,027**	**14,597**
Corporate bonds		
Credit rating from BBB- to BBB+	–	10,373
Corporate bonds	–	**10,373**
Total quoted debt securities	**93,027**	**24,970**
Quoted equity instruments		
No credit rating	4	3
Total quoted equity instruments	**4**	**3**
Available-for-sale investment securities	**93,031**	**24,973**
Pledged under repurchase agreements		
Quoted debt securities		
Eurobonds issued by governments of member countries	21,646	13,903
Eurobonds by governments of member countries	**21,646**	**13,903**
Corporate bonds		
Credit rating from BBB- to BBB+	1,382	–
Corporate bonds	**1,382**	–
Total quoted available-for-sale debt securities pledged under repurchase agreements	**23,028**	**13,903**

Government bonds of member countries represent EUR-denominated and USD-denominated securities issued and guaranteed by the Ministries of Finance of these countries, maturing in 2018-2027 (31 December 2014: maturing in 2017-2024). The annual coupon rate for these bonds varies from 2.0% to 6.0% (2014: from 2.9% to 5.0%).

Corporate bonds are represented by the bonds issued by European development banks and banks of member countries, maturing in 2020 (31 December 2014: maturing in 2015-2020). The annual coupon rate for these bonds is 5.0% (31 December 2014: from 5.0% to 8.1%).

(Thousands of Euros)

9. Held-to-maturity investment securities

Held-to-maturity investment securities comprise:

	2015	*2014*
Owned by the Group		
Quoted debt securities		
Eurobonds issued by governments of member countries	1,272	11,951
Government bonds of member countries	**1,272**	**11,951**
Corporate bonds		
Credit rating from A- to A+	–	17,536
Credit rating from BBB- to BBB+	17,442	45,683
Credit rating from BB- to BB+	31,320	5,830
Corporate bonds	**48,762**	**69,049**
Total quoted held-to-maturity debt securities	**50,034**	**81,000**
Pledged under repurchase agreements		
Quoted debt securities		
Eurobonds issued by governments of member countries	10,489	–
Government bonds of member countries	**10,489**	–
Corporate bonds		
Corporate bonds with credit rating BBB-	62,705	42,634
Total corporate bonds	**62,705**	**42,634**
Held-to-maturity investment securities pledged under repurchase agreements	**73,194**	**42,634**

Government bonds of member countries represent EUR-denominated and RUB-denominated securities issued and guaranteed by the Ministries of Finance of these countries, maturing in 2018-2020 (31 December 2014: maturing in 2018-2020). The annual coupon rate for these bonds varies from 3.6% to 7.9% (31 December 2014: from 3.6% to 7.9%).

Corporate bonds are represented by the bonds issued by major companies and banks of member countries and EU countries, maturing in 2016-2023 (31 December 2014: maturing in 2016-2025). The annual coupon rate for these bonds varies from 3.0% to 7.9% (31 December 2014: from 3.4% to 7.9%).

10. Long-term loans to banks

During 2015 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 facilitate the development of small and medium-sized businesses in the member countries and participate in financing of socially important infrastructure projects in these countries. The Group considers national development institutes, export and import banks and agencies, international financial organizations and development banks as its key counterparties.

In 2015 and 2014, the Group provided long-term loans to banks operating in the following countries:

	2015	*2014*
Russian Federation	64,223	89,874
Mongolia	43,044	26,986
Socialist Republic of Vietnam	33,330	15,172
Total long-term loans to banks	**140,597**	**132,032**

As at 31 December 2015 and 31 December 2014, outstanding long-term loans to banks are neither past due nor impaired, and allowances for impairment of these loans were not made.

(Thousands of Euros)

10. Long-term loans to banks (continued)

Analysis of collateral for long-term loans to banks

The following table provides an analysis of the portfolio of long-term loans to banks by type of collateral as at 31 December 2015 and 31 December 2014:

	2015		*2014*	
	Long-term loans to banks	*Share in the total loans, %*	*Long-term loans to banks*	*Share in the total loans, %*
Pledge of real property (mortgage) and title	6,933	4.9	5,964	4.5
Uncollateralized part of the loans	133,664	95.1	126,068	95.5
	140,597	**100.0**	**132,032**	**100.0**

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 31 December 2015, long-term loans to five banks (31 December 2014: five banks) with the total amount of loans to each of them exceeding 10% of total long-term loans to banks were recorded on the Group‘s balance sheet. As at 31 December 2015, the total amount of such major loans was EUR 85,238 thousand (31 December 2014: EUR 85,049 thousand) and no impairment allowances (31 December 2014: no allowances) has been made for them.

11. Loans to customers

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

	2015	*2014*
Republic of Bulgaria	57,917	31,094
Russian Federation	28,160	2,646
Romania	25,844	5,958
Slovak Republic	23,437	48,345
Mongolia	21,890	23,822
Other	18,249	–
Loans to customers	**175,497**	**111,865**
Less: allowance for loan impairment	(9,755)	(3,589)
Loans to customers	**165,742**	**108,276**

The information on the overdue loans as at 31 December 2015 and 31 December 2014 is stated below:

	2015	*2014*
Loans with overdue principal and/or interest	14,858	8,107
Less: allowance for loan impairment	(9,755)	(3,589)
Overdue loans to customers	**5,103**	**4,518**

As at 31 December 2015 and 31 December 2014, there were no overdue but not impaired loans.

Allowance for impairment of loans to customers

A reconciliation of the allowance for loan impairment by country is as follows:

	Slovak Republic	*Republic of Bulgaria*	*Total*
At 1 January 2015	**3,589**	–	**3,589**
Net (reversal)/charge for the period	(589)	6,755	**6,166**
At 31 December 2015	**3,000**	**6,755**	**9,755**
Individual impairment	**3,000**	**6,755**	**9,755**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**8,103**	**6,755**	**14,858**

11. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

	Russian Federation	*Republic of Bulgaria*	*Slovak Republic*	*Total*
At 1 January 2014	–	–	–	–
Net charge/(reversal) for the period	(2)	(15)	3,589	**3,572**
Recoveries	2	15	–	**17**
At 31 December 2014	–	–	**3,589**	**3,589**
Individual impairment	–	–	**3,589**	**3,589**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	–	–	**8,107**	**8,107**

The following table provides an analysis of the customer loan portfolio, net of allowance for impairment, by types of collateral as at 31 December 2015 and 31 December 2014:

	2015		*2014*	
	Loans net of allowance for impairment	*Share in the total loans, %*	*Loans net of allowance for impairment*	*Share in the total loans, % %*
Pledge of real property (mortgage) and title	35,896	21.6	29,508	27.3
Pledge of equipment and goods in turnover	31,530	19.0	1,706	1.6
Pledge of shares	29,952	18.1	25,947	24.0
Pledge of right of claim	18,492	11.2	12,517	11.6
Uncollateralized part of the loans	49,872	30.1	38,598	35.6
Total loans to customers	**165,742**	**100.0**	**108,276**	**100.0**

Analysis of collateral for loans to customers

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.

Concentration of loans to customers

As at 31 December 2015, loans to two borrowers (2014: four) with the total amount of loans to each of the two borrowers exceeding 10% of total loans to customers were recorded on the Group‘s balance sheet. As at 31 December 2015, these loans comprised EUR 40,991 thousand (2014: EUR 65,405 thousand) in total and no impairment allowances (2014: no allowances) has been made for them.

Analysis of loans to customers by industry

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

	2015	*2014*
Leasing	44,114	19,427
Chemical production	22,743	–
Manufacturing of electrical equipment	21,208	–
Construction of buildings	21,076	20,948
Transport	15,001	–
Pipeline transportation	14,688	25,080
Crude oil refining	9,989	–
Specialized construction	8,103	8,107
Food and beverage	7,569	9,443
Trading	5,418	2,646
Investing activities	4,942	–
Production of vehicles	348	14,892
Communication service	–	11,056
Other	298	266
	175,497	**111,865**
Less: allowance for loan impairment	(9,755)	(3,589)
Total loans to customers	**165,742**	**108,276**

(Thousands of Euros)

12. Investment property

In 2015 and 2014, the following changes occurred in the cost of property under operating lease:

	2015	*2014*
At 1 January	**52,879**	**53,480**
Inseparable improvements	33	154
Transfers in the property and equipment	(16,593)	(1,012)
Effect of revaluation	(2,500)	257
Carrying amount at 31 December	**33,819**	**52,879**

The Group rents part of the building under operating lease agreements. In 2015, the Group's income from lease of investment property amounted to EUR 5,214 thousand (2014: EUR 8,116 thousand).

As at 31 December 2015, the fair value of investment property is determined based on the results of valuation performed on 31 December 2015. The valuation services were performed by an independent firm of professional appraisers which have acknowledged qualification and relevant professional experience in appraising real property of a similar category and in a similar location.

Based on the analysis performed, management believes that the fair value of investment property as at 31 December 2015 does not significantly differ from its carrying amount at that date.

The fair value is determined by reference to market-based evidence. For further details on the fair value of investment property refer to Note 24.

If the investment property was measured using the cost method, the carrying amounts as at 31 December 2015 and 31 December 2014 would be as follows:

	2015	*2014*
Cost	20,264	29,486
Accumulated depreciation	(8,092)	(11,360)
Net book value	**12,172**	**18,126**

The Group has neither restrictions on the realizability of its investment property nor contractual obligations to purchase, construct or develop investment properties, or to repair, maintain and enhance them.

13. Property and equipment

The movements in property and equipment for the year ended 31 December 2015 were as follows:

	Buildings	*Equipment*	*Computers and software*	*Office furniture*	*Vehicles*	*Capital expenditure*	*Total*
Cost or revalued amount							
At 1 January 2015	**50,806**	**7,069**	**3,255**	**486**	**923**	**766**	**63,305**
Inseparable improvements	52	–	–	–	–	–	**52**
Additions	–	–	–	–	–	1,780	**1,780**
Transfers from the investment property	16,593	–	–	–	–	–	**16,593**
Transfers		179	670	4	102	(955)	**–**
Disposals	–	(175)	(322)	(18)	(217)	–	**(732)**
Recovery of accumulated depreciation upon revaluation	(1,002)	–	–	–	–	–	**(1,002)**
Effect of revaluation	(3,642)	–	–	–	–	–	**(3,642)**
At 31 December 2015	**62,807**	**7,073**	**3,603**	**472**	**808**	**1,591**	**76,354**
Accumulated depreciation							
At 1 January 2015	**(67)**	**(6,523)**	**(2,591)**	**(319)**	**(598)**	**–**	**(10,098)**
Charge for the period	(935)	(176)	(341)	(24)	(96)	–	**(1,572)**
Disposals	–	152	322	16	217	–	**707**
Recovery of accumulated depreciation upon revaluation	1,002	–	–	–	–	–	**1,002**
At 31 December 2015	**–**	**(6,547)**	**(2,610)**	**(327)**	**(477)**	**–**	**(9,961)**
Net book value							
At 31 December 2014	**50,739**	**635**	**664**	**167**	**325**	**766**	**53,207**
At 31 December 2015	**62,807**	**526**	**993**	**145**	**331**	**1,591**	**66,393**

(Thousands of Euros)

13. Property and equipment (continued)

The movements in property and equipment for the year ended 31 December 2014 were as follows:

	Buildings	*Equipment*	*Computers and software*	*Office furniture*	*Vehicles*	*Capital expenditure*	*Total*
Cost or revalued amount							
At 1 January 2014	**49,398**	**7,329**	**2,858**	**497**	**749**	**–**	**60,831**
Inseparable improvements	149	–	–	–	–	–	**149**
Additions	–	180	475	51	215	766	**1,687**
Transfers from the investment property	1,012	–	–	–	–	–	**1,012**
Disposals	–	(440)	(78)	(62)	(41)	–	**(621)**
Recovery of accumulated depreciation upon revaluation	(1,473)						**(1,473)**
Effect of revaluation	1,720	–	–	–	–	–	**1,720**
At 31 December 2014	**50,806**	**7,069**	**3,255**	**486**	**923**	**766**	**63,305**
Accumulated depreciation							
At 1 January 2014	**(757)**	**(6,768)**	**(2,381)**	**(357)**	**(568)**	**–**	**(10,831)**
Charge for the period	(783)	(195)	(288)	(20)	(71)	–	**(1,355)**
Disposals	–	440	78	58	41	–	**617**
Recovery of accumulated depreciation upon revaluation	1,473	–	–	–	–	–	**1,473**
At 31 December 2014	**(67)**	**(6,523)**	**(2,591)**	**(319)**	**(598)**	**–**	**(10,098)**
Net book value							
At 31 December 2013	**48,641**	**561**	**477**	**140**	**181**	**–**	**50,000**
At 31 December 2014	**50,739**	**546**	**664**	**167**	**325**	**766**	**53,207**

As at 31 December 2015, the cost of fully depreciated property and equipment still used by the Group was EUR 7,977 thousand (31 December 2014: EUR 8,834 thousand).

As at 31 December 2015, the fair value of a group of buildings owned by the Group is determined based on the results of valuation performed on 31 December 2015. The valuation services were performed by an independent firm of professional appraisers which have acknowledged qualification and relevant professional experience in appraising real property of a similar category and in a similar location.

Based on the analysis performed, management believes that the fair value of a group of buildings as at 31 December 2015 does not significantly differ from its carrying amount at that date.

The fair value is determined by reference to market-based evidence. For further details on the fair value of property and equipment refer to Note 24.

If the buildings were measured using the cost method, the carrying amounts as at 31 December 2015 and 31 December 2014 would be as follows:

	2015	***2014***
Cost	37,635	28,327
Accumulated depreciation	(15,029)	(10,880)
Net book value	**22,606**	**17,447**

(Thousands of Euros)

14. Other assets and liabilities

Other assets comprise:

	2015	*2014*
Other accounts receivable	2,256	2,900
Advance payments and future period expenses	1,144	841
Inventories – real estate objects	43	50
	3,443	**3,791**
Less: allowance for impairment of accounts receivable	(1,633)	(1,763)
Other assets	**1,810**	**2,028**

The movements in other impairment allowance are as follows:

	2015	*2014*
Allowance at 1 January	**1,763**	**411**
Net (reversal)/charge for the year	(89)	1,730
Change in allowance resulting from changes in exchange rates	(41)	(378)
Allowance at 31 December	**1,633**	**1,763**

Other liabilities comprise:

	2015	*2014*
Other accounts payable	2,971	2,482
Settlements with employees	1,067	931
Deferred income	50	243
Other liabilities	**4,088**	**3,656**

15. Due to banks and other financial institutions

Due to banks and other financial institutions comprise:

	2015	*2014*
Term deposits of banks and other financial institutions	49,238	19,783
Repurchase agreements	64,756	41,320
Due to banks and other financial institutions	**113,994**	**61,103**

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 31 December 2015, the Group has two counterparties (31 December 2014: four counterparties) accounting for over 20% of the Group's total deposits from banks and other financial institutions in the amount of EUR 87,788 thousand (31 December 2014: EUR 53,669 thousand).

(Thousands of Euros)

16. Long-term loans of banks

As at 31 December 2015, the Group received three long-term loans in the amount of EUR 44,187 thousand granted the Bank maturing in April 2016, June 2017 and May 2020 (31 December 2014: April 2016). The Group raised long-term loans from banks operating in the following countries:

	31 December 2015	*31 December 2014*
Russian Federation	22,953	20,540
Republic of Bulgaria	13,740	–
Slovak Republic	7,494	–
Long-term loans of banks	**44,187**	**20,540**

17. Debt securities issued

On 29 April 2015, the Group placed RUB-denominated bonds, series 02, in the amount of RUB 3 billion (EUR 51,633 thousand) maturing on the 3,640th day after the first day of placement. The coupon rate on bonds was set at 13.25% p.a. and is payable twice a year, with the first coupon payment to be paid on 28 October 2015. As at 30 September 2015, issued RUB-denominated bonds, series 02, recorded at amortized cost amounted to EUR 43,020 thousand. The Group used the proceeds from the offerings for expanding its loan portfolio.

In June 2015 the Group repurchased RUB-denominated bonds for the total amount of RUB 2.31 billion (EUR 39,283 thousand) under investor put option and set a new coupon rate at 12.00% p.a. for the coupon periods 2-5. In September 2015 the Group made a secondary placement of RUB-denominated bonds of these series among investors in the amount of RUB 2.31 billion (EUR 31,487 thousand). Therefore, all RUB-denominated bonds, series 03, are outstanding again.

On 14 October 2015 the Group issued bonds denominated in Romanian lei in the amount of 111.0 million lei (EUR 25,133,000), maturing in three years. The coupon rate on the bonds was set at 4.1% p.a., payable annually, with the first coupon payment to be made on 14 October 2016.

In October 2015 the Group redeemed ruble-denominated bonds, series 01, worth a total of RUB 1.51 billion (EUR 21,315,000), in connection with an investor put option and set a new coupon rate of 12.00% p.a. for coupon periods 2 through 5.

On 19 November 2015, the Group issued ruble-denominated bonds, series 04, in the amount of RUB 5 billion (EUR 72,362,000), maturing on the 3,640th day after the date of issue. The coupon rate on the bonds was set at 11.9% p.a., payable semiannually, with the first coupon payment to be made on 19 May 2016.

At the dates of placement of RUB-denominated bonds, the Group entered into cross-currency interest rate swaps and a currency forward for the purpose of regulating currency risks (Note 7).

18. Equity

Subscribed and paid-in capital

The Bank's subscribed capital amounts to EUR 1,300,000 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 31 December 2015, unpaid portion of the Bank's subscribed capital in the amount of EUR 996,947 thousand (31 December 2014: EUR 1,027,382 thousand) is the amount of contributions by the Bank's member countries which have not been made yet and the amount of unallocated equity contributions totaling EUR 175,500 thousand (31 December 2014: EUR 296,900 thousand).

(Thousands of Euros)

18. Equity (continued)

Subscribed and paid-in capital (continued)

On 18 May 2015, the Government of Hungary contributed EUR 10,000 thousand to the Bank's equity to resume its full membership. In accordance with the Memorandum of Understanding singed at the 102nd meeting of the IIB's Council (20-21 November 2014), the Bank added EUR 10,000 thousand to the contribution of Hungary out of retained earnings for the previous years. On 29 July in accordance with the Memorandum of Understanding singed at the 102nd meeting of the IIB's Council (20-21 November 2014), the Bank fulfilled its obligations to transfer the second payment in the amount of EUR 10,000 thousand out of retained earnings for the previous years as Hungary's additional contribution to the Bank's share capital.

On 28 December 2015, the Government of Mongolia met its obligation, assumed at the 99th IIB Council Meeting, to provide additional capitalization for the Bank. The Bank received EUR 434,800 as part of Mongolia's additional contribution to the Bank's authorized capital.

As a result, the paid-in capital of the International Investment Bank totaled EUR 303,053 thousand (31 December 2014: EUR 272,618 thousand).

Revaluation reserve for available-for-sale investment securities and revaluation reserve for property and equipment

The movements in the revaluation reserve for available-for-sale investment securities and revaluation reserve for property and equipment were as follows:

	Revaluation reserve for available-for-sale investment securities	*Revaluation reserve for property and equipment*
At 1 January 2014	**214**	**33,375**
Net unrealized gains on available-for-sale investment securities	3,952	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(5,165)	–
Revaluation of buildings	–	1,720
At 31 December 2014	**(999)**	**35,095**
Net unrealized gains on available-for-sale investment securities	2,539	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(3,204)	–
Revaluation of buildings	–	(3,642)
At 31 December 2015	**(1,664)**	**31,453**

Revaluation reserve for available-for-sale investment securities

The revaluation reserve for available-for-sale investment securities records fair value changes of available-for-sale investments.

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.

(Thousands of Euros)

19. Contingencies and loan commitments

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.

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.

Commitments and contingencies

At any time the Group has outstanding commitments to extend loans. These commitments take the form of approved loan agreements.

As at 31 December 2015, commitments and contingencies of the Group comprised off-balance credit-related commitments, in particular undrawn loan facilities and reimbursement obligations.

Off-balance credit-related commitments are presented in the table below as at 31 December 2015 and 31 December 2014.

	2015	*2014*
Undrawn loan facilities	52,376	69,296
Guarantees issued	4,556	–
Reimbursement obligations	6,796	–
Total off-balance commitments	**63,728**	**69,296**

20. Leases

Group as lessor

The Group provides its investment property for operating leases. As at 31 December 2015, the Group's non-cancellable operating lease rentals amount to EUR 5,938 thousand (31 December 2014: EUR 4,742 thousand) and will be settled within 1 year.

(Thousands of Euros)

21. Interest income and interest expense

Net interest income comprises:

	2015	*2014*
Available-for-sale investment securities and held-to-maturity investment securities	8,109	5,813
Loans to customers	8,022	3,932
Long-term loans to banks	7,058	4,793
Deposits with banks and other financial institutions, including cash and cash equivalents	3,943	2,261
Interest income	**27,132**	**16,799**
Debt securities issued	(14,812)	(3,405)
Long-term loans of banks	(1,247)	(417)
Funds raised under repurchase agreements	(819)	(208)
Due to banks and other financial institutions	(609)	(601)
Current customer accounts	(257)	(146)
Interest expenses	**(17,744)**	**(4,777)**
Net interest income	**9,388**	**12,022**

In 2015, interest income accrued on impaired loans to customers amounted to EUR 185 thousand (2014: EUR 192 thousand).

22. General and administrative expenses

General and administrative expenses comprise:

	2015	*2014*
Employee compensations and employment taxes	11,471	11,405
IT-expenses, inventory and occupancy expenses	1,293	1,447
Depreciation of property and equipment (Note 13)	1,572	1,357
Expenses related to business travel, representative and accommodation expenses	1,277	1,309
Professional services	466	1,008
Other	829	405
General and administrative expenses	**16,908**	**16,931**

23. Risk management

Risk management framework

The Group's risk management policy is based on the conservative approach and is mainly aimed at mitigation of 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 approach assumes that the Group does not enter into potential transactions with 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 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 the professional risk management for the bank transactions.

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

(Thousands of Euros)

23. Risk management (continued)

Risk management framework (continued)

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 (1st line of defense): the Group's divisions directly preparing and conducting transactions, 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 (2nd 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 (3rd line of defense): independent quality assessment for existing risk management processes, identification of violations, and proposals for the improvement of the risk management system.

The Group's operations are managed taking into account the level of the risk appetite approved by the Council and integrated into a system of limits and restrictions insuring the acceptable level of risk for aggregated positions, transparent distribution of total risk limit between the activities of the Group.

The Bank's Council, the Board, the Finance Committee, the Credit Committee and the Risk Management Department are responsible for managing the Group's risks.

The Bank's Council is responsible for the general control over the risk management system, determines its development strategy and sets strategic limits and risk appetite.

The Board is the executive body of the Bank, which is responsible for compliance with risk management policies and procedures and exercises control over ratios, limits and risk appetite set by the Council. The Board ensures co-operation among all departments and committees of the Bank.

The Finance Committee determines the Bank's approaches to forming the optimal structure of the Bank's balance sheet, taking into account information of current and expected level of risks associated with assets and liabilities management within the established limits and other restrictions. It also ensures management and control over the credit risk, market risk, operational risk, reputational risk, legal risk and liquidity risk and reviews the limit-setting offers.

Risk management system

The Credit Committee manages the Bank's loan portfolio in accordance with its effective lending policy, aligns operation of the Bank's divisions in terms of the credit risk management and also reviews the offers for setting credit risk limits in respect of certain counterparties.

Committees meet on a regular basis and provide to the Board their recommendations on how to perform transactions and improve risk management policies and procedures.

The Risk Management Department collects and analyzes information related to all types of bank risks, develops and implements risk management methodology, performs their qualitative and quantitative assessment, prepares recommendations for the Board and committees of the Bank to mitigate risk impact on the Group's performance.

During 2015 further development of the risk management system, started in 2013, was aimed at implementation of Basel standards and best practices of development banks within the Group:

- New methodological and regulatory documents relating to credit and operational risk management have been elaborated.
- The Group continued to implement the target model of the risk management system, based on requirements of the leading rating agencies.

(Thousands of Euros)

23. Risk management (continued)

Risk management system (continued)

In compliance with the existing procedures, twice a year the Group sets and reviews limits for counterparties for the purpose of performing financial transactions and assessing their creditworthiness. As part of the lending activity analysis, the Group continuously monitors the level of its loan assets risk. During the reporting period, the Bank sent its specialists to certain borrowers in order to monitor the implementation of the projects and identify potential primary evidence of impairment of loan assets.

To control and monitor the compliance with limits, the Group performs daily monitoring of compliance with restrictions set in the list of the Bank's limits applied to transactions on money, currency and equity markets, as well as structural limits and stop-loss limits. In addition, the Group's management receives regular reports on the status of risks within the Group.

Risk appetite

The risk appetite is the aggregate amount of risk taken by the Group to achieve its strategic goals and objectives. By approving the level of risk appetite, the Bank’s Council determines the willingness to accept a risk or the amount of equity and liquidity that the Bank is willing to risk in the implementation of this strategy.

Risk appetite consists of 4 main components:

- The allocation of capital and liquidity (if necessary).
- Target allocation of capital across the main types of risk.
- The level of risk and target risk appetite in the context of the main performance indicators of the Group and significant risks for the Group.
- Determining levels of tolerance.

The procedure for determining the Group's risk appetite shall be defined by the Credit Risk Management Department and submitted for review by the Board and approval by the Council of the Bank.

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

In determining the risk appetite, the Group assesses whether the specified risk appetite is acceptable in the current time period and whether it will be acceptable in the future, taking into account:

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

Based on the risk appetite determined by the Council, the Board annually approves the Group's limits, sublimits, and risk indicators, which should not exceed the target values of the risk appetite.

Risk identification

The Group identifies and manages both external and internal risk factors throughout its organizational structure. As a result of regular analysis of the Group's exposure to different types of risks performed by the Risk Management Department, the Group identifies factors leading to the increase of the risk level and determines the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks influencing the results of banking transactions. Current risks exposures and their projected changes are discussed during the meetings of the Finance Committee and, if necessary, also communicated to the Management Board along with the recommendations on possible risk mitigation measures.

(Thousands of Euros)

23. Risk management (continued)

Risk assessment, management and control

The Group's risk exposure is primarily reduced by means of collective decision making. Strict allocation of responsibilities between departments and officers of the Group, precise description of instructions and procedures and assignment of competencies and powers to departments and their heads are also important risk mitigation factors. Appropriate methodologies are used to assess the risks. Instructions, procedures and methodologies are regularly reviewed and, if necessary, updated by the Group in order to reflect changed market conditions and improve the risk management methodology.

The risk monitoring system comprises:

- Establishing limits to assume risks based on the respective risk assessment.
- Exercising control over the Group's exposure by means of compliance with the established limits, regular assessment of the Group's risk exposure, and internal audit of risk management systems.

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 discharged them in an untimely fashion or not in full. Credit risk arises principally from loans and advances to customers and other banks and other on and off balance sheet credit exposures. For risk reporting purposes, the Group considers and consolidates all elements of credit risk exposures such as consolidated borrower or counterparty default risk.

System of credit risk management

The Group's regulatory documents establish the following:

- Procedures to review and approve loan/credit applications
- Methodology for the credit assessment of borrowers, counterparties, issuers and insurance companies
- Requirements to the credit documentation
- Procedures for the ongoing monitoring of loans and other credit exposures.

The Credit Committee establishes the limits per borrower/group of related borrowers. The Credit Committee structures the transaction to minimize credit risk. The Loan Operations Analysis Department is responsible for ongoing control over the quality of the Group's loan portfolio.

Upon preparation of a transaction by the initiating unit it is reviewed by the Credit Committee, and then it is approved by the Board. The Board is responsible for all direct credit risk exposures in the amount of up to 15% of the counterparty's share capital and for the period of up to 7 years. Direct credit risks exposures exceeding the specified amount or the period of 7 years should be approved by the Bank's Council.

The corporate loan/credit application and appropriate project documents are reviewed by the Customer Relations Department. In case of a positive decision, the set of documents from the Loan Operations Analysis Department required for reviewing the loan/credit application shall be analyzed by the Legal Department, Risk Management Department, Security Department, Strategic Development and Analysis Department, Internal Audit Department and Compliance Control Department. For the purpose of comprehensive analysis of the loan/credit application received from the Credit Department, the Legal Department, Security Department and Risk Management Department jointly prepare Description of the Investment Transaction. The loan/credit application is subject to review by the Credit Committee based on the Credit Department's Description of the Investment Transaction, report of the Security Department and Strategic Development and Analysis Department, report on risks of the Risk Management Department and compulsory judgment of the Legal Department in respect of the legal compliance of the proposed transaction. The procedure of making lending decisions comprises the following steps: Step 1 includes reviewing application by the Credit Committee; Step 2 includes making decision by the Board of the Bank (if such issue falls within its competence); Step 3 includes sending a set of respective documents approved by the Board of the Bank to the member countries in order to obtain the final approval from the country of origin of the borrower; Step 4 includes making decision by the Council of the Bank (if such issue falls within its competence).

(Thousands of Euros)

23. Risk management (continued)

Credit risk (continued)

Apart from individual customer analysis, the Risk Management Department assesses the whole loan portfolio with regard to credit concentration by industry.

To mitigate credit risk, the Group limits concentrations of exposure to individual customers, counterparties and issuers, groups of related customers, counterparties and issuers as well as by industry and credit rating (for securities). Credit risk management process is based on regular analysis of the creditworthiness the borrowers and their ability to repay interest and principal of debt, and on correspondent limits modification (if necessary).

The Group continuously monitors the quality of individual credit exposures and regularly reassesses the creditworthiness of its customers. The revaluation is based on the customer's most recent financial statements, past-due status, performance of its business plan and other information submitted by the borrower, or otherwise obtained by the Group. Based on this information, the borrower's internal credit rating (class of the loan) may be revised and, accordingly, the appropriate loan impairment provision may be created or changed.

Collateral and other credit enhancements

Credit risk is also managed by obtaining pledge of real estate, assets and securities, and other collateral, including corporate and personal guarantees, as well as monitoring availability and value of collateral.

As availability of collateral is important to mitigate credit risk, this factor is a priority for the Group when reviewing loan/credit applications if their terms and conditions are similar. To ensure recovery of its resources associated with conducting lending and project-financing transactions, the Group applies the following types of collateral for recovery of loans and fulfillment of obligations:

- Pledge of equipment and goods in turnover;
- Pledge of real estate (mortgage) and title;
- Pledge of rights of demand and construction.

Quality of the collateral provided is assessed by the following criteria: safety, adequacy and liquidity. Collateral is not generally held over loans and deposits, except where securities are held as collateral in reverse repurchase agreements.

The Group assumes that the fair value of the collateral is its value estimate recognized by the Group to calculate the discounted impairment allowance based on its liquidity and possibility of selling such property in the event of borrower's default considering the time needed for such sale, litigation and other costs. Current market value of the collateral, if necessary, is assessed by accredited appraisers or based on the Group's internal expert estimate, or carrying amount of the collateral including adjustment coefficient (discount). Where the market value of the collateral is assessed as impaired, the borrowers are usually required to provide additional collateral.

Portfolio of long-term loans to banks and other financial institutions and customers (less allowance for impairment) by type of collateral is analyzed in Notes 10 and 11.

Maximum exposure to credit risk

The maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where the financial instruments are recorded at fair value, their carrying amount represents the current credit risk exposure but not the maximum credit risk exposure that could arise in the future as a result of changes in values.

Analysis of credit risk concentration by customers' industry is presented in Note 11.

Maximum credit risk exposure by credit related commitment represents all the amount of these commitments (Note 19).

(Thousands of Euros)

23. Risk management (continued)

Credit risk (continued)

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Credit quality per class of financial assets

The assessment of credit quality of assets is based on the qualitative and quantitative assessment of credit risk.

Deposit contracts with banks and other financial institutions are concluded with counterparties with acceptable credit ratings assigned by such internationally recognized rating agencies as Standard & Poor's, Fitch and Moody's.

Assessment of credit quality of loans is based on a 5 grade system of risk factor categories: standard, sub-standard, doubtful, impaired and uncollectible. The risk factor category is assigned on the basis of the assessment of the customer's financial position, payment discipline, credit history, compliance with 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.

As at 31 December 2015 and 31 December 2014, there was no evidence of impairment of long-term loans to banks and all such loans were classified as standard. The following table provides information on the credit quality of long-term loans to banks (Note 10) and loans to customers (Note 11) as at 31 December 2015 and 31 December 2014:

2015	*Loan amount*	*Impairment*	*Loan amount, including impairment*	*Impairment to loan amount ratio, %*
Long-term loans to banks without any signs of impairment identified				
Standard loans				
- Russian Federation	64,223	–	64,223	–
- Mongolia	43,044	–	43,044	–
- Socialist Republic of Vietnam	33,330	–	33,330	–
	140,597	**–**	**140,597**	**–**
Loans to customers without any signs of impairment identified				
Standard loans				
- Republic of Bulgaria	51,162	–	51,162	–
- Russian Federation	28,160	–	28,160	–
- Romania	25,844	–	25,844	–
- Mongolia	21,890	–	21,890	–
- Slovak Republic	15,334	–	15,334	–
- Other	18,249	–	18,249	–
Uncollectible loans				
- Slovak Republic	8,103	(3,000)	5,103	37
- Republic of Bulgaria	6,755	(6,755)	–	100
	175,497	**(9,755)**	**165,742**	**5.6**
Total loans	**316,094**	**(9,755)**	**306,339**	**3.1**

(Thousands of Euros)

23. Risk management (continued)

Credit risk (continued)

2014	*Loan amount*	*Impairment*	*Loan amount, including impairment*	*Impairment to loan amount ratio, %*
Long-term loans to banks without any signs of impairment identified				
Standard loans				
- *Russian Federation*	89,874	–	89,874	–
- *Mongolia*	26,986	–	26,986	–
- *Socialist Republic of Vietnam*	15,172	–	15,172	–
	132,032	**–**	**132,032**	**–**
Loans to customers without any signs of impairment identified				
Standard loans				
- *Slovak Republic*	40,238	–	40,238	–
- *Republic of Bulgaria*	31,094	–	31,094	–
- *Mongolia*	23,822	–	23,822	–
- *Romania*	5,958	–	5,958	–
- *Russian Federation*	2,646	–	2,646	–
Uncollectible loans				
- *Slovak Republic*	8,107	(3,589)	4,518	44
	111,865	**(3,589)**	**108,276**	**3**
Total loans	**243,897**	**(3,589)**	**240,308**	**–**

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Renegotiated loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual impairment assessment, calculated using the loan’s original effective interest rate.

Impairment assessment

The Group creates allowance for impairment of loans that represents its estimate of losses incurred in its loan portfolio. The Group writes off a loan balance against related allowances for impairment of loans only subject to the approval of the Council and where the loan is determined as uncollectible and when all necessary steps to collect the loan are completed. Such decision is made after consideration of the information on significant changes in the borrower's financial position such as inability to repay the loan, and when proceedings from disposal of the collateral are insufficient to cover the debt amount in full.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Due to a limited number of borrowers, the Group considers each loan as individually significant. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of financial support, the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, or more frequently, unless unforeseen circumstances require more careful attention.

The total amount of impairment allowance is approved by the Credit Committee on a monthly basis.

(Thousands of Euros)

23. Risk management (continued)

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

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 the *IIB's Assets and Liabilities Management Policy*, as an integral part of general function of the Group's management.

Decision making matrix related to liquidity management includes a strategic level of liquidity management (the Council), tactic level (the Board and special-purpose committees) and operational level (responsible structural divisions). In 2014, the Group updated its approaches to the assets and liabilities management. Starting from 2015, Department for Analytical Support of Treasury Operations (DASKO or ALM Unit) became responsible for organizing and aligning management of the Group's liquidity position. The Group manages its liquidity position in accordance with planning horizons (up to 6 months) and possible scenarios of movements in liquidity position (stable, stressed).

Main instrument of liquidity position management under the stable scenario is a Plan of cash flows defining the cash flow by balance sheet products/instruments and taking into account the plan of future financial operations. The Bank determines the balance sheet gaps, payment schedule and need in financing of future operations based on the Plan of cash flows. As a result of application of these instruments, DASKO issues appropriate recommendations to responsible structural divisions.

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 liquidity shortage that is critical to the Group's solvency.

The liquidity buffer is formed primarily by liquidity reverses, namely securities recognized on the Group's balance sheet and included in the Lombard lists of the European Central Bank and Bank of Russia. The Group calculates its liquidity reserves as at the reporting date and for the next six monthly reporting dates (forecast). Liquidity buffer may be used to close the negative net position. As at 31 December 2015, the liquidity buffer amounts to EUR 65.1 mln (31 December 2014: EUR 64.6 mln).

The table below shows the contractual expiry by maturity of the Group's off-balance credit-related commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

	2015	***2014***
Less than 1 month	52,376	69,296
1 to 3 months	178	–
3 months to 1 year	7,254	–
1 to 5 years	3,920	–
Off-balance credit-related commitments	**63,728**	**69,296**

(Thousands of Euros)

23. Risk management (continued)

Liquidity risk (continued)

The following table provides an analysis of assets and liabilities on the basis of the remaining period from the reporting date to the contractual maturity date: Quoted available-for-sale debt securities were included in "Less than 1 month" category as they are highly liquid investment securities, which the Group may sell in the short-term on the arm-length basis. Available-for-sale investment securities pledged under repurchase agreements are presented on the basis of periods from the reporting date to the expiry date of respective contractual obligations of the Group.

	2015								*2014*							
	Less than 1 month	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Past due*	*Total*	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Past due*	*Total*
Assets																
Cash and cash equivalents	59,519	–	–	–	–	–	–	**59,519**	65,918	–	–	–	–	–	–	**65,918**
Deposits with banks and other financial institutions	15,352	15,627	54,346	15,067	–	–	–	**100,392**	8,327	20,347	5,697	–	–	–	–	**34,371**
Financial assets at fair value through profit or loss	69	–	1,775	–	–	–	–	**1,844**	311	–	–	–	–	–	–	**311**
Available-for-sale investment securities	93,027	230	65	22,733	11,948	4	–	**116,059**	42	7,669	750	13,599	16,813	3	–	**38,876**
Held-to-maturity investment securities	64	972	2,981	76,728	30,535	–	–	**123,228**	70	942	1,146	39,791	81,685	–	–	**123,634**
Long-term loans to banks	–	3,160	41,112	76,374	19,951	–	–	**140,597**	–	1,531	13,139	117,362	–	–	–	**132,032**
Loans to customers	982	1,872	26,573	85,268	45,944	–	5,103	**165,742**	–	901	24,168	53,763	24,926	–	4,518	**108,276**
Other assets	69	81	473	–	–	–	–	**623**	58	75	994	10	–	–	–	**1,137**
Total assets	**169,082**	**21,942**	**127,325**	**276,170**	**108,378**	**4**	**5,103**	**708,004**	**74,726**	**31,465**	**45,894**	**224,525**	**123,424**	**3**	**4,518**	**504,555**
Liabilities																
Due to banks and other financial institutions	(28,421)	–	(20,196)	(64,756)	–	–	–	**(113,373)**	(45,436)	(13,233)	–	–	–	–	–	**(58,669)**
Current customer accounts	(7,430)	–	–	–	–	–	–	**(7,430)**	(4,788)	–	–	–	–	–	–	**(4,788)**
Financial liabilities at fair value through profit or loss	–	–	(16,191)	(13,707)	–	–	–	**(29,898)**	–	–	(21,705)	–	–	–	–	**(21,705)**
Long-term loans of banks	(102)	–	(24,529)	(19,556)	–	–	–	**(44,187)**	(97)	–	–	(20,443)	–	–	–	**(20,540)**
Debt securities issued	–	–	(40,111)	(172,613)	–	–	–	**(212,724)**	–	–	(82,884)	(29,875)	–	–	–	**(112,759)**
Other liabilities	(475)	(1,103)	(2,460)	–	–	–	–	**(4,038)**	(1,356)	(49)	(2,251)	–	–	–	–	**(3,656)**
Total liabilities	**(36,428)**	**(1,103)**	**(103,487)**	**(270,632)**	**–**	**–**	**–**	**(411,650)**	**(51,677)**	**(13,282)**	**(106,840)**	**(50,318)**	**–**	**–**	**–**	**(222,117)**
Net position	**132,653**	**20,839**	**23,838**	**5,538**	**108,378**	**4**	**5,103**	**296,354**	**23,049**	**18,183**	**(60,946)**	**174,207**	**123,424**	**3**	**4,518**	**282,438**
Accumulated net position	**132,653**	**153,493**	**177,331**	**182,869**	**291,247**	**291,251**	**296,354**		**23,049**	**41,232**	**(19,714)**	**154,493**	**277,917**	**277,920**	**282,438**	

(Thousands of Euros)

23. Risk management (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2015 and 31 December 2014 based on contractual undiscounted repayment obligations except for gross settled derivatives which are shown by contractual maturity. Debt securities with put options (offers) are presented as if investors will exercise their options at the earliest possible date. The Group expects that it will have to make payment on current bond offers.

As at 31 December 2015	*Less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Total*
Financial liabilities					
Due to banks and other financial institutions	–	28,443	20,293	69,386	**118,122**
Current customer accounts	–	7,430	–	–	**7,430**
Net settled derivative liabilities	(69)	–	–	–	**(69)**
Gross settled derivative financial instruments					
- Contractual amounts payable	–	–	118,408	160,641	**279,049**
- Contractual amounts receivable	–	–	(117,884)	(151,321)	**(269,205)**
Long-term loans of banks	–	–	23,473	22,303	**45,776**
Debt securities issued	–	–	50,936	201,220	**252,156**
Other liabilities	475	1,103	2,460	–	**4,038**
Total undiscounted financial liabilities	**406**	**36,976**	**97,686**	**302,229**	**437,297**

As at 31 December 2014	*Less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Total*
Financial liabilities					
Due to banks and other financial institutions	–	58,746	–	–	**58,746**
Current customer accounts	–	4,788	–	–	**4,788**
Net settled derivative liabilities	(310)	–	–	–	**(310)**
Gross settled derivative financial instruments					
- Contractual amounts payable	–	–	132,244	–	**132,244**
- Contractual amounts receivable	–	–	(113,142)	–	**(113,142)**
Long-term loans of banks	–	–	284	21,019	**21,303**
Debt securities issued	–	–	87,926	35,072	**122,998**
Other liabilities	1,356	518	2,493	–	**4,367**
Total undiscounted financial liabilities	**1,046**	**63,583**	**109,563**	**56,091**	**230,283**

Market risk

Market risk is the risk that the Group may incur losses due to adverse fluctuations in 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 Board of the Bank performs overall management of market risk.

The Finance Committee coordinates the Group's market risk management policy and reviews and provides recommendations on management of market risks to the Management Board.

The Treasury Department performs strategic management of market risks. The Risk Management Department performs the assessment of equity and currency risks exposure. The Treasury Department manages open positions within the established limits in order to increase the Group's income on a daily basis.

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 the result of changes in the levels of indices and the value of individual securities.

(Thousands of Euros)

23. Risk management (continued)

Market risk (continued)

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 metals or a portfolio, which shall not be exceeded at a given confidence level and over a specified time horizon.

The Group assumes 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 currency position of the Group is carried out in major currencies and financial instruments of the Group attributable to a securities portfolio.

At 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.

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 above-mentioned risks, the Group carries out regular testing (back-testing) based on historical data, which allows evaluating the compliance of risk assessment model with the actual market situation.

As at 31 December 2015 and 31 December 2014, final data on value at risk assessment (VaR) in relation to currency and price risks assumed by the Group are represented as follows:

	2015	*2014*
Fixed income securities price risk	1,536	364
Currency risk	126	945

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

- Analysis based on 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.
- 10-day time horizon implies the entire Group's position over this period could have been closed or hedged. Results of 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.

23. Risk management (continued)

Market risk (continued)

The Group's exposure to currency risk as at 31 December 2015 and 31 December 2014 is presented below:

	2015					2014				
	EUR	*USD*	*RUB*	*Other currencies*	*Total*	*EUR*	*USD*	*RUB*	*Other currencies*	*Total*
Assets										
Cash and cash equivalents	37,363	20,147	1,907	102	**59,519**	33,801	31,655	360	102	**65,918**
Deposits with banks and other financial institutions	99,990	–	402	–	**100,392**	32,895	1,044	432	–	**34,371**
Available-for-sale investment securities	89,426	26,633	–	–	**116,059**	32,355	6,521	–	–	**38,876**
Held-to-maturity investment securities	55,416	63,636	4,176	–	**123,228**	55,566	63,561	4,507	–	**123,634**
Long-term loans to banks	106,063	34,534	–	–	**140,597**	110,815	21,217	–	–	**132,032**
Loans to customers	124,751	40,991	–	–	**165,742**	108,276	–	–	–	**108,276**
Other assets	12	–	171	440	**623**	111	2	1,024	–	**1,137**
	513,021	**185,941**	**6,656**	**542**	**706,160**	**373,819**	**124,000**	**6,323**	**102**	**504,244**
Liabilities										
Due to banks and other financial institutions	(52,785)	(59,706)	(882)	–	**(113,373)**	(16,804)	(41,181)	(684)	–	**(58,669)**
Current customer accounts	(7,220)	(210)	–	–	**(7,430)**	(4,605)	(183)	–	–	**(4,788)**
Long-term loans of banks	(7,494)	(36,693)	–	–	**(44,187)**	–	(20,540)	–	–	**(20,540)**
Debt securities issued	(30,030)	–	(158,099)	(24,595)	**(212,724)**	(30,079)	–	(82,680)	–	**(112,759)**
Other liabilities	(3,103)	(51)	(852)	(32)	**(4,038)**	(2,879)	(74)	(703)	–	**(3,656)**
	(100,632)	**(96,660)**	**(159,833)**	**(24,627)**	**(381,752)**	**(54,367)**	**(61,978)**	**(84,067)**	**–**	**(200,412)**
Net balance sheet position	**412,389**	**89,281**	**(153,177)**	**(24,085)**	**324,408**	**319,452**	**62,022**	**(77,744)**	**102**	**303,832**
Derivative financial instruments										
Claims	61,068	–	156,879	24,108	**242,055**	33,310	–	76,915	–	**110,225**
Liabilities	(210,884)	(59,225)	–	–	**(270,109)**	(97,564)	(34,056)	–	–	**(131,620)**
Net balance sheet position including derivative financial instruments	**262,573**	**30,056**	**3,702**	**23**	**296,354**	**255,198**	**27,966**	**(829)**	**102**	**282,437**

(Thousands of Euros)

23. Risk management (continued)

Market risk (continued)

Interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates in its financial position and cash flows. Interest margins may increase as a result of such fluctuations but may also reduce or create losses in the event that unexpected movements arise.

Analysis of the Group's equity sensitivity to changes in interest rates (based on simplified scenario of the 100 basis points (bp) parallel shifts (up and down) in yield curves and positions of available-for-sale debt securities as at 31 December 2015 and 31 December 2014) is as follows:

	2015	*2014*
	The Group's equity	*The Group's equity*
100 bp parallel shift up	(6,758)	(1,387)
100 bp parallel shift down	6,758	1,387

Operational risk

Operational risk is a risk of loss arising from inadequate management and control procedures, fraud, inconsistent business solutions, system failures due to human errors and abuse of power, technical deficiencies, calculation errors, disasters and misuse of the Group's property.

Generally, the Board controls the risk management process as well as compliance with internal policies, approves internal regulations relating to risk management, establishes operational risks monitoring limits and allocates duties relating to operational risk management among various agencies.

The Risk Management Department controls and monitors operational risks and provides respective reporting to the Board. The current control enables to timely identify and eliminate deficiencies in policies and procedures aimed at operational risk management, as well as to cut the possibility and amount of related losses. The Group continuously seeks to enhance its business processes, operating structure and personnel incentives system in order to minimize the impact of operational risk.

24. Fair values of financial instruments

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, judgment is necessarily required to interpret market data to determine the estimated 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 which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(Thousands of Euros)

24. Fair values of financial instruments (continued)

Fair value hierarchy (continued)

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.

	Valuation date	*Level 1 2015*	*Level 2 2015*	*Level 3 2015*	*Total 2015*
Assets measured at fair value					
Derivative financial assets	31 December 2015	–	1,844	–	**1,844**
Government bonds of member countries and bonds of regional governments	31 December 2015	114,673	–	–	**114,673**
Corporate bonds	31 December 2015	1,382	–	–	**1,382**
Quoted equity instruments	31 December 2015	–	4	–	**4**
Investment property	31 December 2015	–	–	33,819	**33,819**
Property and equipment - buildings	31 December 2015	–	–	62,807	**62,807**
Liabilities measured at fair value					
Derivative financial liabilities	31 December 2015	–	29,898	–	**29,898**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2015	–	–	59,519	**59,519**
Deposits with banks and other financial institutions	31 December 2015	–	–	100,392	**100,392**
Held-to-maturity investment securities	31 December 2015	114,876	–	–	**114,876**
Long-term loans to banks	31 December 2015	–	–	139,891	**139,891**
Loans to customers	31 December 2015	–	–	165,742	**165,742**
Liabilities for which fair values are disclosed					
Due to banks and other financial institutions	31 December 2015	–	–	113,373	**113,373**
Current customer accounts	31 December 2015	–	–	7,430	**7,430**
Long-term loans of banks	31 December 2015	–	–	44,187	**44,187**
Debt securities issued	31 December 2015	–	214,734	–	**214,734**

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2014:

	Valuation date	*Level 1 2014*	*Level 2 2014*	*Level 3 2014*	*Total 2014*
Assets measured at fair value					
Derivative financial assets	31 December 2014	–	311	–	**311**
Government bonds of member countries and bonds of regional governments	31 December 2014	28,500	–	–	**28,500**
Corporate bonds	31 December 2014	10,373	–	–	**10,373**
Quoted equity instruments	31 December 2014	–	3	–	**3**
Investment property	31 December 2014	–	–	52,879	**52,879**
Property and equipment - buildings	31 December 2014	–	–	50,739	**50,739**
Liabilities measured at fair value					
Derivative financial liabilities	31 December 2014	–	21,705	–	**21,705**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2014	–	–	65,918	**65,918**
Deposits with banks and other financial institutions	31 December 2014	–	–	34,371	**34,371**
Held-to-maturity investment securities	31 December 2014	99,872	–	–	**99,872**
Long-term loans to banks	31 December 2014	–	–	126,485	**126,485**
Loans to customers	31 December 2014	–	–	108,276	**108,276**
Liabilities for which fair values are disclosed					
Due to banks and other financial institutions	31 December 2014	–	–	58,669	**58,669**
Current customer accounts	31 December 2014	–	–	4,788	**4,788**
Long-term loans of banks	31 December 2014	–	–	20,540	**20,540**
Debt securities issued	31 December 2014	–	106,351	–	**106,351**

(Thousands of Euros)

24. Fair values of financial instruments (continued)

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 carried in the consolidated financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying amount 2015	*Fair value 2015*	*Unrecognized gain/(loss) 2015*	*Carrying amount 2014*	*Fair value 2014*	*Unrecognized gain/(loss) 2014*
Financial assets						
Cash and cash equivalents	59,519	59,519	–	65,918	65,918	–
Deposits with banks and other financial institutions	100,392	100,392	–	34,371	34,371	–
Held-to-maturity investment securities	123,228	114,876	(8,352)	123,634	99,872	(23,762)
Long-term loans to banks	140,957	139,891	(706)	132,032	126,485	(5,547)
Loans to customers	165,742	165,742	–	108,276	108,276	–
Financial liabilities						
Due to banks and other financial institutions	113,373	113,373	–	58,669	58,669	–
Current customer accounts	7,430	7,430	–	4,788	4,788	–
Long-term loans of banks	44,187	44,187	–	20,540	20,540	–
Debt securities issued	212,724	214,734	(2,010)	112,759	106,351	6,408
Total unrecognized change in unrealized fair value			**(11,068)**			**(22,901)**

Fair value measurements

The Group determines the policies and procedures for both recurring fair value measurement, such as unquoted derivatives, investment property, and buildings, and for non-recurring measurement, such as inventories.

External appraisers are involved for valuation of significant assets, such as building and property. Involvement of external appraisers is decided upon by the Bank's Finance Department. Unquoted derivatives are measured by the Finance Department.

Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

In the course of audit procedures, the Bank's Finance Department presents the valuation results to the Group's independent auditors upon requests. This includes a discussion of the major assumptions used in the valuations.

Methodologies and assumptions

The following describes the methodologies and assumptions used to determine fair values of those financial instruments which are not recorded at fair value in these financial statements.

Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value.

Cash and cash equivalents, deposits with banks and other financial institutions

Management has estimated that at 31 December 2015 and 31 December 2014 the fair value of deposits with banks and other financial institutions, and cash and cash equivalents was not significantly different from their respective carrying amount. This is due to the existing practice of renegotiating interest rates to reflect current market conditions, and, therefore, a majority of balances carry interest at rates approximating market interest rates.

24. Fair values of financial instruments (continued)

Methodologies and assumptions (continued)

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost is estimated by comparing market interest rates at their initial recognition with current market rates for similar financial instruments.

The estimated fair value of fixed rate long-term loans to banks, loans to customers, and deposits in banks is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. Management has estimated that at 31 December 2015 and 31 December 2014 the fair value of loans to customers and long-term loans of banks was not significantly different from their respective carrying amount.

Investment property

The Group engages an independent appraiser for the investment property fair value measurement. As at the valuation date (31 December 2015), the fair values of investment property were based on the results of valuation performed by an accredited independent appraiser and the prices of market transactions using the market, cost and income approaches to fair value measurement.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behavior that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less expenses related to vacant premises, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission costs, and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

Property and equipment – buildings

Fair value of the properties was determined by using the market approach. This means that valuations performed by the appraiser are based on market transaction prices, significantly adjusted for difference in the nature, location or condition of the specific property. As at the valuation date (31 December 2015), the properties' fair values are based on valuations performed by an accredited independent appraiser and the prices of market transactions using the market, cost and income approaches to fair value measurement.

Significant unobservable inputs used in determining the fair value of real estate properties

As at the valuation date (31 December 2015), the significant unobservable inputs used in determining the fair value of real estate properties included the average asking prices for sale of similar properties ranging from EUR 2,899 per sq. m (range minimum) to EUR 4,023 per sq. m (range maximum), and lease rates ranging from EUR 365 per sq. m a year (minimum) to EUR 486 per sq. m a year (maximum).

There were no transfers of financial instruments between level 2 and level 1 in 2015 and 2014.

Movements in level 3 assets and liabilities at fair value

The following tables show a reconciliation of the opening and closing amount of Level 3 assets and liabilities which are recorded at fair value:

	At 1 January 2015	*Total gain/ (loss) recorded in profit or loss*	*Total gains/ (losses) recorded in other comprehensive income*	*Purchases*	*Transfer in property and equipment*	*At 31 December 2015*
Assets						
Property and equipment – buildings	50,739	(935)	(3,642)	52	16,593	62,807
Investment property	52,879	(2,500)	–	33	(16,593)	33,819
Total	**103,618**	**(3,435)**	**(3,642)**	**85**	**–**	**96,626**

(Thousands of Euros)

24. Fair values of financial instruments (continued)

Movements in level 3 assets and liabilities at fair value (continued)

	At 1 January 2014	*Total gain/ (loss) recorded in profit or loss*	*Total gains/ (losses) recorded in other comprehensive income*	*Purchases*	*Transfer in property and equipment*	*At 31 December 2014*
Assets						
Property and equipment – buildings	48,641	(783)	1,720	149	1,012	50,739
Investment property	53,480	257	–	154	(1,012)	52,879
Total	**102,121**	**(526)**	**1,720**	**303**	**–**	**103,618**

25. Transferred financial assets that are not derecognized

The table below provides a summary of the financial assets transferred by the Group under repurchase agreements in such a way that all the transferred financial assets do not qualify for derecognition:

	Available-for-sale investment securities		*Held-to-maturity investment securities*		
Transferred financial asset	*Government bonds of member countries 2015*	*Corporate bonds 2015*	*Government bonds of member countries 2015*	*Corporate bonds 2015*	*Total 2015*
Carrying amount of assets	21,646	1,382	10,489	62,705	**96,222**
Carrying amount of associated liabilities	(16,350)	(930)	(6,998)	(40,478)	**(64,756)**
Net position	**5,296**	**452**	**3,491**	**22,227**	**31,466**

	Available-for-sale investment securities		*Held-to-maturity investment securities*		
Transferred financial asset	*Government bonds of member countries 2014*	*Corporate bonds 2014*	*Government bonds of member countries 2014*	*Corporate bonds 2014*	*Total 2014*
Carrying amount of assets	13,903	–	–	42,634	**56,537**
Carrying amount of associated liabilities	(12,488)	–	–	(28,832)	**(41,320)**
Net position	**1,415**	**–**	**–**	**13,802**	**15,217**

Securities sold under repurchase agreements are transferred to a third party and the Group receives cash in exchange. If the securities increase or decrease in value, the Group may, in certain circumstances, require, or be required, to pay additional collateral in the form of cash and/or other securities. The Group has determined that it retains substantially all the risks and rewards of these securities, which include credit risk, market risk, country risk and operational risk, and therefore has not derecognized them. In addition, it recognizes a financial liability for cash received.

The fair value of investment securities available for sale sold under repurchase agreements is equal to their carrying amount. The fair value of bonds classified as investments securities held to maturity and sold under repurchase agreements is disclosed in respective Notes (Note 24).

The related liabilities, which are recorded against the cash received for such transactions, are presented in amounts due to banks and other financial institutions in the consolidated statement of financial position as at 31 December 2015 (as at 31 December 2014: in amounts due to banks and other financial institutions).

(Thousands of Euros)

26. 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 units 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 consolidated financial statements. The following table presents income, profit, assets and liabilities of the Group's operating segments:

2015	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	15,080	11,904	148	**27,132**
Net gains from available-for-sale investment securities	–	3,204	–	**3,204**
Net gains from held-to-maturity investment securities		45		**45**
Income from lease of investment property	–	–	5,214	**5,214**
Recovery of provision	–	–	89	**89**
Other segment income	460	–	79	**539**
Total income	**15,540**	**15,153**	**5,530**	**36,223**
Interest expenses	(7,260)	(10,484)	–	**(17,744)**
Net losses from trading in foreign currencies	–	(5,302)	(25)	**(5,327)**
Allowance for impairment of loans	(6,166)	–	–	**(6,166)**
Net gains from revaluation of investment property	–	–	(2,500)	**(2,500)**
Other segment expenses	–	(114)	(1,344)	**(1,458)**
Segment results	**2,114**	**(747)**	**1,661**	**3,028**
Other unallocated income				**15,936**
Other unallocated expenses				**(16,908)**
Profit for the year				**2,056**
Segment assets	306,339	400,201	102,863	**809,403**
Segment liabilities	116,138	291,474	4,088	**411,700**
Other segment information				
Capital expenditures	–	–	85	**85**

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(Thousands of Euros)

26. Segment information (continued)

2014	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	8,725	7,966	108	**16,799**
Net gains from trading in foreign currencies	–	3,426	–	**3,426**
Net gains from available-for-sale investment securities	–	5,165	–	**5,165**
Income from lease of investment property	–	–	8,116	**8,116**
Recovery of provision	–	–	17	**17**
Net gains from revaluation of investment property	–	–	257	**257**
Revenue from sales of inventories	–	–	3,569	**3,569**
Other segment income	42	–	280	**322**
Total income	**8,767**	**16,557**	**12,347**	**37,671**
Interest expenses	(1,622)	(3,155)	–	**(4,777)**
Allowance for impairment of loans	(3,589)	–	–	**(3,589)**
Losses from impairment of investments in subsidiary	–	–	(4,305)	**(4,305)**
Other segment expenses	(47)	(640)	(5,120)	**(5,807)**
Segment results	**3,509**	**12,762**	**2,922**	**19,193**
Other unallocated income				**1,976**
Other unallocated expenses				**(16,931)**
Profit for the year				**4,238**
Segment assets	240,308	262,399	108,825	**611,532**
Segment liabilities	56,569	161,892	3,656	**222,117**
Other segment information				
Capital expenditures	–	–	303	**303**

In 2015 and 2014, the Group's revenue from lease operations with one external counterparty exceeded 20% of the Group's total revenue (2015: EUR 3,196 thousand; 2014: EUR 5,718 thousand).

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 years ended 31 December 2015 and 31 December 2014 is presented in the table below:

	2015				*2014*			
	Russia	*Other member countries*	*Other countries*	*Total*	*Russia*	*Other member countries*	*Other countries*	*Total*
Interest income	12,147	11,721	3,264	**27,132**	7,987	8,096	716	**16,799**
Income from lease of investment property	5,214	–	–	**5,214**	8,116	–	–	**8,116**
Revenue from sales of inventories					3 569	–	–	**3,569**
Non-current assets	100,212	–	–	**100,212**	106,086	–	–	**106,086**

Non-current assets include property and equipment, and investment property.

(Thousands of Euros)

26. Segment information (continued)

Geographical information (continued)

The geographical concentration of the Group's assets and liabilities based on the location of the Group's counterparties as at 31 December 2015 is presented below:

	2015									
	Russian Federation	***Republic of Bulgaria***	***Romania***	***Slovak Republic***	***Hungary***	***Mongolia***	***Socialist Republic of Vietnam***	***Czech Republic***	***Other countries***	***Total***
Assets										
Cash and cash equivalents	2,026	219	17	15	–	–	–	–	57,242	**59,519**
Deposits with banks and other financial institutions	6,049	–	–	–	–	30,539	–	–	63,804	**100,392**
Financial instruments at fair value through profit or loss	669	–	–	–	–	–	–	–	1,175	**1,844**
Investment securities:										
- available-for-sale	–	26,889	31,150	13,208	12,056	13,746	11,506	6,118	1,386	**116,059**
- held-to-maturity	105,785	–	–	–	–	–	–	–	17,443	**123,228**
Long-term loans to banks less allowances for impairment	64,223	–	–	–	–	43,044	33,330	–	–	**140,597**
Loans to customers less allowances for impairment	28,160	51,162	25,844	20,437	–	21,890	–	–	18,249	**165,742**
Assets	**206,912**	**78,270**	**57,011**	**33,660**	**12,056**	**109,219**	**44,836**	**6,118**	**159,299**	**707,381**
Liabilities										
Due to banks and other financial institutions	992	–	–	7,508	–	–	–	20,086	84,787	**113,373**
Financial instruments at fair value through profit or loss	18,723	–	864	–	–	–	–	–	10,311	**29,898**
Long-term loans of banks	22,953	13,740	–	7,494	–	–	–	–	–	**44,187**
Long-term securities issued	158,067	–	24,557	30,100	–	–	–	–	–	**212,724**
Liabilities	**200,735**	**13,740**	**25,421**	**45,102**	**–**	**–**	**–**	**20,086**	**95,098**	**400,182**

(Thousands of Euros)

26. Segment information (continued)

Geographical information (continued)

	2014									
	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Republic of Cuba*	*Mongolia*	*Socialist Republic of Vietnam*	*Czech Republic*	*Other countries*	*Total*
Assets										
Cash and cash equivalents	23,698	–	–	8,241	–	–	–	16,464	17,515	**65,918**
Deposits with banks and other financial institutions	432	–	–	–	–	30,460	–	–	3,479	**34,371**
Financial instruments at fair value through profit or loss	311	–	–	–	–	–	–	–	–	**311**
Investment securities:										
- available-for-sale	10,381	14,642	2,584	1,177	–	1,948	1,702	3,567	2,875	**38,876**
- held-to-maturity	106,097	–	–	–	–	–	–	–	17,537	**123,634**
Long-term loans to banks less allowances for impairment	89,874	–	–	–	–	26,986	15,172	–	–	**132,032**
Loans to customers less allowances for impairment	2,646	31,094	5,958	44,756	–	23,822	–	–	–	**108,276**
Assets	**233,439**	**45,736**	**8,542**	**54,174**	**–**	**83,216**	**16,874**	**20,031**	**41,406**	**503,418**
Liabilities										
Due to banks and other financial institutions	–	29,837	–	–	–	–	–	–	28,832	**58,669**
Financial instruments at fair value through profit or loss	21,143	–	–	–	–	–	–	–	562	**21,705**
Long-term loans of banks	20,540	–	–	–	–	–	–	–	–	**20,540**
Long-term securities issued	82,679	–	–	30,080	–	–	–	–	–	**112,759**
Liabilities	**124,362**	**29,837**	**–**	**30,080**	**–**	**–**	**–**	**–**	**29,394**	**213,673**

Other countries include members of the Organization for Economic Co-operation and Development (OECD).

(Thousands of Euros)

27. Offsetting of financial instruments

The table below shows the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the consolidated statement of financial position as at 31 December 2015:

2015	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position*		*Net amount*
				Financial instruments	*Cash collateral received*	
Financial assets						
Financial assets pledged under repurchase agreements	96,222	–	96,222	(64,756)	–	**31,466**
Total	**96,222**	**–**	**96,222**	**(64,756)**	**–**	**31,466**
Financial liabilities						
Repurchase agreements with banks	64,756	–	64,756	(64,756)	–	–
Total	**64,756**	**–**	**64,756**	**(64,756)**	**–**	**–**

The table below shows financial assets offset against financial liabilities in the consolidated statement of financial position as at 31 December 2014 as well as the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the consolidated statement of financial position:

2014	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position*		*Net amount*
				Financial instruments	*Cash collateral received*	
Financial assets						
Financial assets pledged under repurchase agreements	56,537	–	56,537	(41,320)	–	**15,217**
Total	**56,537**	**–**	**56,537**	**(41,320)**	**–**	**15,217**
Financial liabilities						
Repurchase agreements with banks	41,320	–	41,320	(41,320)	–	–
Total	**41,320**	**–**	**41,320**	**(41,320)**	**–**	**–**

28. 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.

(Thousands of Euros)

28. Related party disclosures (continued)

The volumes of related party transactions, outstanding balances at the year end, and related expenses and income for 2015 and 2014 are as follows:

		31 December 2015		*31 December 2014*	
	Related party	***Carrying amount***	***Average interest rate, %***	***Carrying amount***	***Average interest rate, %***
Consolidated statement of financial position					
Current customer accounts	Key management personnel	493	–	369	–

		2015	*2014*
	Related party	***Income/ (expense)***	***Income/ (expense)***
Consolidated income statement			
Interest expenses on current customer accounts	Key management personnel	(95)	(42)
Employee benefits	Key management personnel	(1,524)	(1,451)
Compensation for travel expenses and medical insurance	Key management personnel	(89)	(71)
		(1,708)	**(1,564)**

29. Capital adequacy

Capital adequacy ratio is the most important financial indicator characterizing credibility of credit institutions and is estimated as ratio of capital base to risk-weighted assets expressed as a percentage. Approval of the capital adequacy ratio is the sole power of the Bank's Council.

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 31 December 2015, this minimum level was 8% (2014: 8%).

Besides, taking into account the Bank's status as the multilateral development institution as well as the structure of the Bank's member countries and the respective decision of the Council, the capital adequacy ratio was set for the Bank at the level of not less than 25% as at 31 December 2015 (2014: 25%).

The following table shows the composition of the Group's capital position computed in accordance with the Basel Accord (Basel II) as at 31 December 2015 and 31 December 2014.

	2015	*2014*
Capital		
Tier 1 capital	365,978	351,305
Tier 2 capital	29,789	33,871
Total regulatory capital	**395,767**	**385,176**
Risk-weighted assets		
Credit risk	560,094	384,656
Market risk	70,461	58,352
Operational risk	55,548	50,141
Total risk-weighted assets	**686,103**	**493,149**
Total capital expressed as a percentage of risk-weighted assets, % ("capital adequacy ratio")	57.68%	78.11%
Total tier 1 capital expressed as a percentage of risk-weighted assets, % ("tier 1 capital adequacy ratio")	53.34%	71.24%

(Thousands of Euros)

30. Events after the reporting period

On 9 March, in accordance with the Memorandum of Understanding signed at the 102nd IIB Council Meeting (20-21 November 2014), Hungary fully met its obligation to contribute EUR 10,000,000 to the Bank's authorized capital. As a result, the paid-in capital of the International Investment Bank came to EUR 313,053,000, and Hungary increased its share to 12.78%.

(The end)

Independent auditor's report
on the consolidated financial statements of
International Investment Bank and its subsidiaries
for 2016

March 2017

Independent auditor's report on the consolidated financial statements of International Investment Bank and its subsidiaries

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Independent auditor's report

To the Council of the International Investment Bank

Opinion

We have audited the consolidated financial statements of International Investment Bank (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2016 , and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016 and its financial performance and its cash flows for 2016 in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Provisions for impairment of loans to customers

The assessment of provisions for impairment of loans to customers is a key area of judgement for management of the Group. The identification of impairment and the determination of the recoverable amount are inherently uncertain processes involving significant judgements, various assumptions and factors including the financial standing of borrowers and expected future cash flows. Information on the impairment of loans to customers is included in Note 11, *Loans to customers*, Note 23, *Risk management*, to the consolidated financial statements. The use of different models and assumptions could produce significantly different estimates of impairment of loans to customers. Due to materiality of the loans to customers represented 31% of the total assets and significant judgements the assessment of provisions for impairment was one of the key audit matters.

Our audit procedures included an evaluation of the methodology of the assessment of provisions, testing of inputs, evaluation of the assumptions used by the Group in the calculation of the impairment and the assessment of the adequacy of provisions for loans to customers with individual signs of impairment. We analysed expected future cash flows in respect of significant individually impaired loans to customers.

We also assessed whether the disclosures in the consolidated financial statements about the Group's provision for impairment of loans to customers are compliant with applicable IFRS requirements.

Valuation of the buildings classified to "property and equipment" and "investment property"

The Group's aggregate value of the buildings classified to "property and equipment" and "investment property" was 10% of the total Group's assets. Group's management measured the value the buildings classified to "property and equipment" and "investment property" with involvement of the independent appraiser.

The valuation of the assets utilises unobservable inputs and assumptions. Changes of these inputs and assumptions may have a significant impact on the valuation. The significance and subjectivity of these valuations make them a key audit matter. Information of the valuation of the buildings classified to "property and equipment" and "investment property" is included in Note 12, *Investment property*, Note 13, *Property, equipment and intangible assets*, and Note 24, *Fair value measurements,* to the consolidated financial statements.

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Our audit procedures in respect of the buildings classified to "property and equipment" and "investment property" included evaluation of competence and objectivity of the Group's independent appraiser involved, examination of the significant assumptions applied and comparison of inputs used to available market prices and other observable information. We involved our real estate valuation specialists to evaluate the methodology and assumptions used. We also assessed whether the Group's disclosures in relation to the valuation of the buildings classified to "property and equipment" and "investment property", in particular, the sensitivity of fair value to changes to key assumptions, are compliant with applicable IFRS requirements.

Other information included in the Group's Annual Report for 2016

Other information consists of the information included in the Annual Report of International Investment Bank for 2016 other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report of International Investment Bank for 2016 is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and Council of the International Investment Bank for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Council of the International Investment Bank are responsible for overseeing the Group's financial reporting process.

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Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Council of the International Investment Bank regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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We also provide Council of the International Investment Bank with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Council of the International Investment Bank, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is O.V. Youshenkov.

O.V. Youshenkov
Partner
Ernst & Young Vneshaudit LLC

15 March 2017

Details of the audited entity

Name: International Investment Bank
Bank operates on the basis of the Agreement on the Establishment of the International Investment Bank dated 10 July 1970, registered in the UN Secretariat on 1 December 1971 under No 11417.
Address: Russia 107078, Moscow, Mashi Poryvaevoy str., 7.

Details of the auditor

Name: Ernst & Young Vneshaudit LLC
Record made in the State Register of Legal Entities on 4 February 2016, State Registration Number 1167746123478.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young Vneshaudit LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young Vneshaudit LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050953.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

(Thousands of euros)

	Note	*31 December 2016*	*31 December 2015*
Assets			
Cash and cash equivalents	5	93,031	59,519
Deposits with banks and other financial institutions	6	45,337	100,392
Derivative financial assets	7	14,362	1,844
Available-for-sale investment securities	8	170,849	93,031
Available-for-sale investment securities pledged under repurchase agreements	8	98,458	23,028
Held-to-maturity investment securities	9	–	50,034
Held-to-maturity investment securities pledged under repurchase agreements	9	–	73,194
Loans to banks	10	94,367	140,597
Loans to customers	11	269,036	165,742
Investment property	12	21,840	33,819
Property, equipment and intangible assets	13	71,844	66,393
Other assets	14	2,319	1,810
Total assets		**881,443**	**809,403**
Liabilities			
Due to banks and other financial institutions	15	118,925	113,373
Derivative financial liabilities	7	11,623	29,898
Current customer accounts		9,218	7,430
Long-term loans of banks	16	73,349	44,187
Debt securities issued	17	272,528	212,724
Other liabilities	14	5,582	4,088
Total liabilities		**491,225**	**411,700**
Equity	18		
Subscribed capital		1,300,000	1,300,000
Callable capital		(986,947)	(996,947)
Paid-in capital		**313,053**	**303,053**
Revaluation reserve for available-for-sale investment securities		(1,506)	(1,664)
Revaluation reserve for property and equipment		12,945	31,453
Foreign currency translation reserve		(57)	(120)
Retained earnings less net income for the year		64,981	62,925
Net income for the year		802	2,056
Total equity		**390,218**	**397,703**
Total equity and liabilities		**881,443**	**809,403**

Signed and authorized for release on behalf of the Board of the Group

Alexandru Florescu — Acting Chairman of the Board

Eugeny Atanasov — Head of the Financial Department

15 March 2017

The accompanying notes 1-29 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2016

(Thousands of euros)

	Note	*2016*	*2015*
Interest income	21	32,455	27,132
Interest expenses	21	(27,651)	(17,744)
Net interest income		**4,804**	**9,388**
Allowance for loan impairment	11	(7,557)	(6,166)
Net interest income after allowance for loan impairment		**(2,753)**	**3,222**
Fee and commission income		843	548
Fee and commission expense		(138)	(133)
Net fee and commission income		**705**	**415**
Net gains/(losses) from revaluation of derivative financial instruments		32,330	(6,661)
Net losses from revaluation of hedging instruments		(246)	–
Net gains/(losses) from dealing in foreign currencies and operations with derivatives		9,068	(5,302)
Net (losses)/gains from revaluation of assets and liabilities in foreign currencies		(31,173)	22,983
Net gains from available-for-sale investment securities		10,515	3,204
Income from lease of investment property	12	3,442	5,214
Losses from revaluation of investment property	12	(2,174)	(2,500)
Other income/(expenses)		447	(296)
Net non-interest income		**22,209**	**16,642**
Operating income		**20,161**	**20,279**
Reversal of allowance for impairment of other assets	14	67	89
General and administrative expenses	22	(18,939)	(16,908)
Other operating expenses on banking operations		(487)	(1,404)
Operating expenses		**(19,359)**	**(18,223)**
Net income for the year		**802**	**2,056**

The accompanying notes 1-29 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

(Thousands of euros)

	Note	*2016*	*2015*
Net income for the year		**802**	**2,056**
Other comprehensive loss			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Change in unrealized revaluation of available-for-sale investment securities	18	158	(665)
Translation differences		63	104
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**221**	**(561)**
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:			
Revaluation of property and equipment	13	(18,508)	(3,642)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(18,508)**	**(3,642)**
Other comprehensive loss		**(18,287)**	**(4,203)**
Total loss for the year		**(17,485)**	**(2,147)**

The accompanying notes 1-29 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

(Thousands of euros)

	Subscribed capital	*Callable capital*	*Revaluation reserve for available-for-sale investment securities*	*Revaluation reserve for property and equipment*	*Foreign currency translation reserve*	*Retained earnings*	*Total equity*
At 31 December 2014	**1,300,000**	**(1,027,382)**	**(999)**	**35,095**	**(224)**	**82,925**	**389,415**
Profit for the year	–	–	–	–	–	2,056	**2,056**
Other comprehensive (loss)/income for the year	–	–	(665)	(3,642)	104	–	**(4,203)**
Total comprehensive (loss)/income	**–**	**–**	**(665)**	**(3,642)**	**104**	**2,056**	**(2,147)**
Contributions to capital (Note 18)	–	30,435	–	–	–	(20,000)	**10,435**
At 31 December 2015	**1,300,000**	**(996,947)**	**(1,664)**	**31,453**	**(120)**	**64,981**	**397,703**
Profit for the year	–	–	–	–	–	802	**802**
Other comprehensive income/(loss) for the year	–	–	158	(18,508)	63	–	**(18,287)**
Total comprehensive income/(loss)	**–**	**–**	**158**	**(18,508)**	**63**	**802**	**(17,485)**
Contributions to capital (Note 18)	–	10,000	–	–	–	–	**10,000**
At 31 December 2016	**1,300,000**	**(986,947)**	**(1,506)**	**12,945**	**(57)**	**65,783**	**390,218**

The accompanying notes 1-29 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

(Thousands of euros)

	Note	*2016*	*2015*
Cash flows from operating activities			
Interest, fees and commissions received		24,092	17,498
Interest, fees and commissions paid		(3,364)	(1,497)
Realized gains less losses from dealing in foreign currencies and operations with derivatives		9,079	(5,420)
Cash flows from lease of investment property		3,442	5,214
General and administrative expenses		(16,094)	(15,814)
Other operating expenses on banking operations		(78)	(932)
Cash flows from operating activities before changes in operating assets and liabilities		**17,077**	**(951)**
Net (increase)/decrease in operating assets			
Deposits with banks and other financial institutions		54,498	(76,379)
Loans to banks		47,598	(5,904)
Loans to customers		(118,231)	(61,048)
Other assets		(5)	401
Net increase/(decrease) in operating liabilities			
Due to banks and other financial institutions		1,589	60,572
Current customer accounts		1,481	2,618
Other liabilities		68	135
Net cash flows from operating activities		**4,075**	**(80,556)**
Cash flows from investing activities			
Interest received		11,458	10,805
Purchase of available-for-sale investment securities		(668,584)	(245,442)
Proceeds from sale and redemption of available-for-sale investment securities		618,419	161,597
Proceeds from sale and redemption of held-to-maturity investment securities		30,373	15,268
Investments in investment property		(50)	(33)
Acquisition of property, equipment and intangible assets		(1,754)	(2,764)
Net cash flows from investing activities		**(10,138)**	**(60,569)**
Cash flows from financing activities			
Interest paid		(26,324)	(14,759)
Long-term interbank financing raised		60,000	21,448
Long-term interbank financing repaid		(29,569)	–
Placement of bonds		67,398	184,399
Redemption of bonds		(43,910)	(65,089)
Contributions to capital		10,000	10,435
Net cash flows from financing activities		**37,595**	**136,434**
Effect of exchange rate changes on cash and cash equivalents		1,980	(1,708)
Net increase/(decrease) in cash and cash equivalents		**33,512**	**(6,399)**
Cash and cash equivalents, beginning		**59,519**	**65,918**
Cash and cash equivalents, ending	5	**93,031**	**59,519**

The accompanying notes 1-29 are an integral part of these consolidated financial statements.

(Thousands of euros)

1. Principal activities

The International Investment Bank (hereinafter, the "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 on the Establishment of the International Investment Bank (the "Agreement") and the Statutes. The Agreement was ratified by the member countries of the Bank and registered with the Secretariat of the United Nations in December 1971. The Group is primarily engaged in commercial lending for the benefit of national investment projects in the member countries of the Group and for other purposes defined by the Council of the Bank. The Group also performs transactions with securities and foreign currency. The Group operates from its office at 7 Mashi Poryvaevoi St., Moscow, Russia, and the European regional office in Bratislava (Eurovea Central 1, Pribinova 4, Bratislava, 81109, Slovak Republic).

The Group had an average of 230 staff employees during 2016 (2015: 237).

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, the International Investment Bank is not subject to the restrictive measures.

The Group continues to expand its operations despite the ongoing market volatility in member countries:

- Hungary re-entered the Bank in 2015 and in 2016 made an ahead-of-schedule final contribution to the Group's equity. As at the end of 2016, Hungary's share in the Bank's paid-in capital was EUR 40 million or 12.78%.
- As a result of the Hungary's re-entering, the respective share of the EU countries in the Bank's paid-in capital grew up to 48.72% exceeding the share of the Russian Federation, which decreased to 47.92%.
- The Banks winds up the introduction of changes to its constituent documents and implementation of the three-level corporate governance structure. The Protocol on Introducing Changes to the Agreement on the Establishment of the International Investment Bank and the Statutes (hereinafter, the "Protocol") signed at the end of 2015 is at the stage of ratification (internal state procedures) by member countries of the Bank. The Protocol will enter into force upon completion of those ratification procedures. As at the end of 2016, the Protocol was ratified by Hungary, Vietnam, Romania, and Russia (4 countries out of 9).
- In December 2016, Fitch Ratings upgraded the rating of the Group to BBB with a stable outlook, for the first time since rating in 2013. Also, the Bank is assigned the following investment grade ratings: Baa1 (stable outlook) by Moody's and A (stable outlook) by Dagong Global Credit Rating. In June 2016, the Bank was assigned the BBB rating (stable outlook) by Standard & Poor's.
- In June 2016, the Group concluded a cooperation agreement on fund raising with the Central Bank of Cuba. The agreement confirms the special status of the International Investment Bank in Cuba, which implies that the Cuban party shall fulfill its liabilities to the IIB under the projects in Cuba financed by the Group.
- The IIB completed a large-scale IT-project to upgrade its core banking system (CBS) – a digital platform to manage, process and protect the Bank's data. A data-processing center was launched in the IIB European Regional Office in Bratislava to ensure security and uninterrupted service of the new CBS.
- In April 2016 the Group signed an agreement with the Ministry of Finance of Slovakia concerning the creation of a Technical Assistance Fund, which will be a new instrument supporting the activities of the IIB in country shareholders. The aim of the Fund is to finance the consulting services and technical assistance rendered, for projects in which the IIB is investing in fulfilling its mission. The countries in scope are Mongolia, Vietnam and Cuba. Within this given scope the Group is undertaking consultation and negotiations with CAF (The Development Bank of Latin America) in order to identify potential projects in which to invest or to finance.

1. Principal activities (continued)

Member countries of the Group

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

Member countries	*2016, %*	*2015, %*
Russian Federation	47.923	49.505
Republic of Bulgaria	13.481	13.926
Hungary	12.777	9.899
Czech Republic	9.703	10.023
Slovak Republic	6.862	7.088
Romania	5.895	6.089
Republic of Cuba	1.713	1.769
Socialist Republic of Vietnam	1.172	1.211
Mongolia	0.474	0.490
	100.000	**100.000**

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

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

The Group 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 regional features of its member countries to ensure overall assessment and control of credit and operational risks.

The accompanying 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 consolidated financial statements.

2. Basis of preparation

General

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") approved by the International Accounting Standards Board.

Subsidiary

The Bank is a parent company of the Group, which owns CJSC IIB Capital (a 100% subsidiary established in 2012 for the purpose of the acting of the Bank, in particular, for the property trust of the Bank) as at 31 December 2016. The authorized capital of the subsidiary is 44.5 thousand rubles (1.1 thousand of euros at the historical exchange rate at the date of established).

Basis of measurement

These 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, available-for-sale financial instruments also stated at fair value, and buildings and investment property are stated at revalued amounts.

(Thousands of euros)

2. Basis of preparation (continued)

Preparation and presentation of financial statements

The financial year of the Group begins on 1 January and ends on 31 December.

Functional and presentation currency

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 consolidated financial statements are presented in thousands of euros ("thousands of euros" or "EUR thousand"), unless otherwise indicated.

3. Summary of accounting policies

Changes in accounting policies

The Group has adopted the following amended IFRS which are effective for annual periods beginning on or after 1 January 2016:

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- ► The materiality requirements in IAS 1;
- ► That specific line items in the statements of profit or loss and OCI and the statement of financial position may be disaggregated;
- ► That entities have flexibility as to the order in which they present the notes to financial statements;
- ► That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group and presentation of other comprehensive income in consolidated financial statements of the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group as the Group does not apply the consolidation exception.

(Thousands of euros)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Annual improvements 2012-2014 cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include, in particular:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

Foreign currency transactions

The consolidated financial statements are presented in euro, which is the Group's functional and presentation currency. Every currency except euro is considered foreign currency. Transactions in foreign currencies are initially translated in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated income statement as "Net (losses)/gains from revaluation of assets and liabilities in foreign currencies". Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Group's exchange rate on the date of the transaction are included in "Net gains/(losses) from dealing in foreign currencies".

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

(Thousands of euros)

3. Summary of accounting policies (continued)

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights (interest), or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognized at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognized in the consolidated income statement, and its share of movements in reserves is recognized in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealized gains on transactions between Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and amounts due from banks and other financial institutions, including reverse repurchase agreements, which mature within ninety days from the origination date and are free from contractual encumbrances.

Fair value measurement

The Group measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 24.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(Thousands of euros)

3. Summary of accounting policies (continued)

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognized in profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in profit or loss when the investments are impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method.

Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses from change in fair value being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognized in profit or loss.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- A financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity.
- Other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

(Thousands of euros)

3. Summary of accounting policies (continued)

Financial assets (continued)

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repo") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as cash equivalents, deposits with banks and other financial institutions as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest rate method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the consolidated income statement. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards and swaps in the foreign exchange market. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as net gains/(losses) from dealing in foreign currencies and operations with derivatives.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separate from the host are carried at fair on the trading portfolio with changes in fair value recognized in profit or loss.

Hedge accounting

To manage the risks associated with fluctuations in cash flows from receipt and payment of interest, as well as with fluctuations in the fair value of certain items, the Group uses derivative financial instruments. As a result, the Group applies hedge accounting for transactions that meet specified criteria.

At inception of the hedge accounting relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at inception and on an ongoing basis.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was highly effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken both at inception and at each month end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% during the hedging period.

3. Summary of accounting policies (continued)

Hedge accounting (continued)

Fair value hedges

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognised in the consolidated income statement in Net gains (losses) from revaluation of hedging instruments. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the consolidated statement of financial position and is also recognised in the consolidated income statement in Net gains (losses) from revaluation of hedging instruments.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, or the Group decides to voluntarily discontinue the hedging relationship, the hedge relationship is discontinued prospectively. When the hedge ceases, the adjustment of the carrying amount of the hedged financial instrument is amortized over the remaining period until date of maturity of the hedged financial instrument. If the hedged item is derecognised, the unamortized amount of the adjustment is recognized in profit or loss.

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognized in consolidated other comprehensive income and is recorded through other comprehensive income. An ineffective portion of the gain or loss on the hedging instrument is recognized in the consolidated income statement.

When a hedging instrument expires, is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, the total amount of income or expense accumulated at that time in equity is transferred from equity and recognized in the consolidated statement of income in the same period or periods during which hedged projected cash flows affect profit or loss. When a forecast transaction is no longer expected, the cumulative gain or loss recognized in equity is immediately transferred to the consolidated income statement.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to banks and other financial institutions, long-term loans of banks and debt securities issued. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the borrowings are derecognized as well as through the amortization process.

Leases

Operating – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into general and administrative expenses.

Operating – Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the consolidated income statement over the lease term within net non-interest income on "Income from lease of investment property". The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

(Thousands of euros)

3. Summary of accounting policies (continued)

Measurement of financial instruments at initial recognition

When financial instruments are recognized initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, then:

- If the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Group recognizes the difference between the fair value at initial recognition and the transaction price as a gain or loss.
- In all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognizes that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that may be related to defaults.

Deposits with banks and other financial institutions, long-term loans to banks, trade financing loans, and loans to customers

For deposits with banks and other financial institutions, long-term loans to banks, trade financing loans, and loans to customers carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss exists, the amount of the loss is measured as the difference between the assets' value in the consolidated statement of financial position and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The value of the asset in the consolidated statement of financial position is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount of asset based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If amounts previously written off are later recovered, the recovery is credited to the consolidated income statement.

(Thousands of euros)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a financial asset is provided at a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude).

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the consolidated income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Group determines at each reporting date whether there is objective evidence that an instrument or a group of instruments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its acquisition cost.

Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition coast and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement – is reclassified from other comprehensive income to the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidate income statement; increases in their fair value after impairment are recognized in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed through the consolidated income statements.

(Thousands of euros)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognized and the new loan is recognized in the consolidated statement of financial position.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Group uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in the consolidated statement of financial position where:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement.
- The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

(Thousands of euros)

3. Summary of accounting policies (continued)

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in "Other liabilities", being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of profit or loss. The premium received is recognised in profit or loss on a straight-line basis over the life of the guarantee.

Property and equipment

Property and equipment are carried in the consolidated financial statements at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment, excluding buildings carried at revalued cost, as described below. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations of buildings are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the consolidated income statement, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of property and equipment (including self-constructed property and equipment) begins when it is available for use and is recognized in the consolidated income statement. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	85
Equipment	3-7
Computers	3-6
Office furniture	5-10
Motor vehicles	4

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year end.

Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses, unless they qualify for capitalization.

3. Summary of accounting policies (continued)

Investment property

Investment property includes buildings held to earn rental income or for capital appreciation and which are not used by the Group or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in the consolidated income statement within Income from lease of investment property. Gains and losses resulting from changes in the fair value of investment property are recorded in the consolidated income statement and presented within gains/(losses) from revaluation of investment property.

Subsequent expenditure is subject to capitalization only when it is probable that future economic benefits associated with an asset will flow to the Group and it can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to buildings, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Intangible assets

The useful lives of intangible assets are assessed to be finite and include the value of computer software. Intangible assets acquired are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation is calculated using the straight–line method. Intangible assets are tested for impairment if any indication of impairment exists. The amortisation period and the amortisation method for an intangible asset with a indefinite useful life are reviewed at least at each financial year-end. Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives, as follows:

	Years
Automated banking system	20
Other computer software	1-5

Intangible assets with finite lives are amortized over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Assets classified as held for sale

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

The sale qualifies as highly probable if the Group's management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

The Group measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of the asset to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

(Thousands of euros)

3. Summary of accounting policies (continued)

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Equity

In accordance with amendments to IAS 32 *Financial Instruments: Presentation*, and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*, that were issued in February 2008, participants' shares are recognized in equity and not in liabilities.

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed in the consolidated financial statements, when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized in the consolidated financial statements:

Interest and similar income and expense

For all financial instruments measured at amortized cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

- *Other fee and commission income*

Fees earned for the provision of transaction services are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

(Thousands of euros)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Fee and commission expense

Fee and commission expenses comprise commissions on securities transactions and commissions on cash settlement transactions. Commissions paid on purchase of securities classified as financial instruments at fair value through profit or loss are recognized in the consolidated income statement at the purchase date. Commissions paid on all other purchases of securities are recognized as an adjustment to the carrying amount of the instrument with corresponding adjustment to its effective yield.

Dividend income

Revenue is recognized when the Group's right to receive the payment is established.

Assets under trust

Assets under trust management are not reported in consolidate financial statements, as they are not assets of the Group.

Segment reporting

The reportable segments of the Group comprise the following operating segments: Credit and investment activity, Treasury, Other operations.

Standards issued but not yet effective

The standards and interpretations issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortized cost categories. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortized cost or FVOCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

IFRS 9 will also fundamentally change the approach to loan impairment. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Group will be required to record an allowance for expected losses for all loans and other debt financial assets not carried at FVPL, as well as for loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance would be based on the probability of default over the life of the asset.

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not required; the effect on the transition date – 1 January 2018 – would be recorded in retained earnings. The adoption of IFRS 9 is not expected to have a significant effect on the classification and measurement of the Group's financial assets and will have no impact on the classification and measurement of the Group's financial liabilities. The Group expects to measure investment securities at fair value through OCI as the Group expects not only to hold the assets to collect contractual cash flows but also to sell a significant amount on a relatively frequent basis. Deposits with banks and other financial institutions, loans to banks and loans to customers are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects to continue measuring those financial assets at amortized cost under IFRS 9. The Group plans to adopt the new standard on the required effective date. In 2016, the Group made a general assessment of the impact of all three phases of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information that will become available to the Group in the future. On the whole, the Group does not expect the adoption of the new requirements to have a significant impact on its balance sheet or equity, except for the effect of adoption of IFRS 9 impairment requirements. The Group expects increase in level of provisions which will influence an equity, and will perform a detailed assessment to determine the amount of such increase. The Group believes that all existing hedge relationships currently designated at the discretion of the Group in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Group does not expect a significant impact as a result of adoption of IFRS 9. The Group will assess possible changes related to the accounting for the time value of options, forward points or the currency basis spread in more detail in the future.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognizing revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 *Leases*).

Revenue under IFRS 15 will need to be recognized as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services.

The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Group does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases – IFRS 16 *Leases* in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognize most leases on their balance sheets as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognized leases, but will have the option not to recognize 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognized leases will be similar to today's finance lease accounting, with interest and depreciation expense recognized separately in the consolidated statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

The Group does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

(Thousands of euros)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The Group does not anticipate that adopting the amendments would have a material impact on its consolidated financial statements.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Group is currently studying the application of these amendments.

Amendments to IFRS 2 Share-based Payment

The IASB issued amendments to IFRS 2 *Share-based Payment* in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

These amendments are effective for annual periods beginning on or after 1 January 2018. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted. The amendments are not expected to have any impact on the Group.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement* while they defer the application of IFRS 9 until 1 January 2021 at the latest. The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4.

The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The amendments are not expected to have any impact on the Group.

Applying IFRS 10 and IAS 28 – Sale or transfer of assets between an investor and its associate or joint venture

The amendments eliminate a known discrepancy between the requirements of IFRS 10 and IAS 28 for the loss of control of a subsidiary that is transferred to an associate or a joint venture as a contribution to equity. The amendments clarify that the income or loss arising from the sale or transfer by an investor of assets that are business in accordance with the definition in IFRS 3 in favor of its associate or joint venture should be fully reflected. In December 2015, the IASB decided to postpone the effective date of these amendments indefinitely.

(Thousands of euros)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Transfers of investment property (amendments to IAS 40).

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use.

Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. The amendments effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Early application of interpretation is permitted and must be disclosed. The Group does not anticipate early adopting of interpretation and is currently evaluating its impact. The interpretation is effective for annual periods beginning on or after 1 January 2018.

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 consolidated financial statements, which have the most significant effect on the amounts recognized in the consolidated financial statements and the carrying amount of assets and liabilities in the following financial year. Estimates and assumptions are continuously assessed and are based on management experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The most significant uses of judgments and estimates are as follows:

Allowance for impairment of loans and other financial assets carried at amortized cost

Financial assets are recorded in the Group's consolidated statement of financial position less allowances for impairment. The Group regularly reviews its financial assets to assess impairment. When assessing impairment losses, the Group uses its professional judgment in relation to objective evidences that future contractual cash flows on financial asset shall decrease.

These evidences may include information on financial difficulties of the borrower or other observable data on adverse changes in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. The Group uses its professional judgment to adjust observable data for financial assets to reflect current circumstances. Impairment loss may be reversed only if a subsequent increase of estimated contractual cash flows can be objectively related to an event occurring after the impairment loss was recognized.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. More details are provided in Note 24.

(Thousands of euros)

4. Significant accounting judgments and estimates (continued)

Assumptions and estimation uncertainty (continued)

Impairment of available-for-sale equity securities

The Group determines that available-for-sale equity investment securities are impaired when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates, among other factors, the volatility of share prices. In addition, impairment may take place when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operating or financing cash flows.

Fair values of buildings and investment property

As disclosed in Note 3, the Group applies the fair value model with regard to investment property. Buildings included in fixed assets are stated at revalued amount.

As for buildings within property and equipment, the Group monitors the compliance of the present value of buildings with their fair value and performs revaluation to ensure that there are no significant differences. Changes in the fair value are recognized in other comprehensive income. The most recent revaluation of the Group’s building was carried out as at 31 December 2016 by an independent firm of professional appraisers applying an appropriate valuation methodology and information on transactions with similar real estate objects on the local market. However, valuation results based on the above valuation technique may differ from the prices of actual transactions in the real estate market. Starting from 31 December 2016, the revalued building is depreciated in accordance with the remaining useful life.

As for investment property, the Group monitors changes in its fair value at each reporting date to ensure that the present value of investment property does not differ materially from its fair value. Changes in the fair value of investment property are recognized in the consolidated income statement. The most recent revaluation of the Group’s investment property was carried out as at 31 December 2016 by an independent firm of professional appraisers applying an appropriate valuation methodology and information on transactions with similar real estate objects on the local market.

However, valuation results based on the above valuation technique may differ from the prices of actual transactions in the real estate market.

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 – Available-for-sale investment securities.
- Note 10 – Loans to banks.
- Note 11 – Loans to customers.
- Note 12 – Investment property.
- Note 13 – Property, equipment and intangible assets.
- Note 19 – Contingencies and lending commitments.

(Thousands of euros)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2016	*2015*
Cash on hand	**104**	**66**
Nostro accounts with banks and other financial institutions		
Credit rating from A- to A+	62,548	21,106
Credit rating from BBB- to BBB+	4,526	3,059
Credit rating from BB- to BB+	551	350
Total nostro accounts with banks and other financial institutions	**67,625**	**24,515**
Short-term deposits with banks		
Term deposits with banks		
Credit rating from BBB- to BBB+	–	18,304
Credit rating from BB- to BB+	25,302	16,634
Total short-term deposits with banks	**25,302**	**34,938**
Cash and cash equivalents	**93,031**	**59,519**

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:

	2016	*2015*
Term deposits up to 1 year		
Credit rating from BB- to BB+	–	6,049
Credit rating from B- to B+	37,126	79,276
Total term deposits up to 1 year	**37,126**	**85,325**
Term deposits over 1 year		
Credit rating from A- to A+	5,821	15,067
Credit rating from BB- to BB+	2,390	–
Total term deposits over 1 year	**8,211**	**15,067**
Total deposits with banks and other financial institutions	**45,337**	**100,392**

Amounts due from the National Bank of the Republic of Cuba

	2016	*2015*
Term deposits with the National Bank of the Republic of Cuba without credit rating	34,967	34,967
Less: allowance for impairment	(34,967)	(34,967)
Term deposits with the National Bank of the Republic of Cuba	**–**	**–**

Concentration of deposits with banks and other financial institutions

As at 31 December 2016, the Group had three counterparties (31 December 2015: five counterparty) accounting for over 10% of the Group’s total deposits with banks and other financial institutions, except for deposits with the National Bank of the Republic of Cuba.

(Thousands of euros)

7. Derivative financial instruments

The Group performs the 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 the 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 at 31 December 2016 and 31 December 2015 and notional amounts of term contracts for the purchase and sale of foreign currency specifying contractual exchange rates.

	31 December 2016				
	Notional 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 9,136,720 thousand	EUR 132,150 thousand	69.42	14,246	883
	RON 110,300 thousand	EUR 24,971 thousand	4.44	–	632
	EUR 117,000 thousand	USD 128,825 thousand	1.10	116	5,704
	EUR 8,000 thousand	RUB 572,280 thousand	71.54	–	788
Forwards	EUR 34,000 thousand	USD 37,896 thousand	1.11	–	2,080
Total derivative financial assets and liabilities at fair value through profit or loss				**14,362**	**10,087**
Derivative financial assets and liabilities designated as hedging instruments					
Swaps	RON 298,300 thousand	EUR 67,068 thousand	4.45	–	1,536
Total derivative financial assets and liabilities designated as hedging instruments				**–**	**1,536**
Derivative financial instruments				**14,362**	**11,623**

	31 December 2015				
	Notional 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 12,136,720 thousand	EUR 185,914 thousand	65.28	–	29,034
	RON 110,300 thousand	EUR 24,972 thousand	4.42	–	864
	EUR 61,000 thousand	USD 64,982 thousand	1.07	1,775	–
Forwards	EUR 30,000 thousand	USD 32,721 thousand	1.09	69	–
Total derivative financial assets and liabilities at fair value through profit or loss				**1,844**	**29,898**
Derivative financial instruments				**1,844**	**29,898**

(Thousands of euros)

7. Derivative financial instruments (continued)

Due to issuing bond loans denominated in currencies other than the Group's functional currency (Note 17), the Group concluded cross currency interest rate swaps and currency forwards on an arm's length basis with large international and Russian 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 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 notional amounts indicate the volume of transactions outstanding at the end of the reporting period and are not indicative of the credit risk.

As at 31 December 2016 and 31 December 2015, 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 notional 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 EUR to RUB exchange rates.

8. Available-for-sale investment securities

Available-for-sale investment securities comprise:

	2016	*2015*
Owned by the Group		
Quoted debt securities		
Government bonds:		
Eurobonds issued by governments of member countries	52,678	93,027
Government bonds	**52,678**	**93,027**
Corporate bonds		
Credit rating from A- to A+	21,152	–
Credit rating from BBB- to BBB+	21,861	–
Credit rating from BB- to BB+	57,579	–
Credit rating from B- to B+	17,575	–
Corporate bonds	**118,167**	**–**
Total quoted debt securities	**170,845**	**93,027**
Quoted equity instruments		
No credit rating	4	4
Total quoted equity instruments	**4**	**4**
Available-for-sale investment securities	**170,849**	**93,031**
Pledged under repurchase agreements		
Quoted debt securities		
Eurobonds issued by governments of member countries	10,286	21,646
Eurobonds issued by governments of non-member countries	7,597	–
Government bonds	**17,883**	**21,646**
Corporate bonds		
Credit rating AAA	22,486	–
Credit rating from AA- to AA+	4,688	–
Credit rating from A- to A+	32,521	–
Credit rating from BBB- to BBB+	4,994	1,382
Credit rating from BB- to BB+	15,886	–
Corporate bonds	**80,575**	**1,382**
Total quoted available-for-sale debt securities pledged under repurchase agreements	**98,458**	**23,028**

(Thousands of euros)

8. Available-for-sale investment securities (continued)

Government bonds represent EUR-denominated, USD-denominated and RUB-denominated securities issued and guaranteed by the Ministries of Finance of these countries, maturing in 2018-2027 (31 December 2015: maturing in 2018-2027). The annual coupon rate for these bonds varies from 0.4% to 7.9% (31 December 2015: from 2.0% to 6.0%).

Corporate bonds are represented by the bonds issued by large companies and banks of member countries of the Bank, as well as corporate international companies and Development Banks that have similar goals and missions with the Group, maturing in 2018-2031 (31 December 2015: maturing in 2020). The annual coupon rate for these bonds varies from 0.6% to 10.25% (31 December 2015: 5.0%).

9. Held-to-maturity investment securities

In July 2016, due to changes in the Bank's management's intent to withhold investment securities to maturity, the Bank reclassified these securities into investment securities available for sale. At the date of reclassification, the amortized cost of securities amounted to 92,105 thousand euros.

Held-to-maturity investment securities comprise:

	2016	*2015*
Owned by the Bank		
Quoted debt securities		
Eurobonds issued by governments of member countries	–	1,272
Government bonds of member countries	**–**	**1,272**
Corporate bonds		
Credit rating from BBB- to BBB+	–	17,442
Credit rating from BB- to BB+	–	31,320
Corporate bonds	**–**	**48,762**
Total quoted held-to-maturity debt securities	**–**	**50,034**
Held-to-maturity investment securities pledged under repurchase agreements		
Quoted debt securities		
Eurobonds issued by governments of member countries	–	10,489
Government bonds of member countries	**–**	**10,489**
Corporate bonds		
Credit rating from BB- to BB+	–	62,705
Corporate bonds	**–**	**62,705**
Total held-to-maturity investment securities pledged under repurchase agreements	**–**	**73,194**

Government bonds of member countries represent EUR-denominated and RUB-denominated securities issued and guaranteed by the Ministries of Finance of these countries maturing as at 31 December 2015 in 2018-2020. The annual coupon rate for these bonds as at 31 December 2015 varies from 3.6% to 7.9%.

Corporate bonds are represented by the bonds issued by major companies and banks of member countries and EU countries, maturing as at 31 December 2015 in 2016-2023. The annual coupon rate for these bonds as at 31 December 2015 varies from 3.0% to 7.9%.

(Thousands of euros)

10. Loans to banks

During 2016, 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 facilitate the development of small and medium-sized businesses in the member countries and participate in financing of socially important infrastructure projects in these countries. The Group considers national development institutes, export and import banks and agencies, international financial organizations and development banks as its key counterparties.

In 2016 and 2015, the Group provided trade financing loans and long-term loans to banks operating in the following countries:

	2016	*2015*
Trade financing loans:		
Russian Federation	953	–
Trade financing loans	**953**	**–**
Long-term loans to banks		
Mongolia	47,970	43,044
Russian Federation	26,425	64,223
Socialist Republic of Vietnam	19,019	33,330
Long-term loans to banks	**93,414**	**140,597**
Total loans to banks	**94,367**	**140,597**

As at 31 December 2016 and 31 December 2015, outstanding trade financing loans and long-term loans to banks are neither past due nor impaired, and no allowances for impairment of these loans were made.

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 31 December 2016 and 31 December 2015:

	2016		*2015*	
	Loans to banks	*Share in the total loans, %*	*Loans to banks*	*Share in the total loans, %*
Pledge of real property (mortgage) and title	7,247	7.7	6,933	4.9
Uncollateralized part of the loans	87,120	92.3	133,664	95.1
	94,367	**100.0**	**140,597**	**100.0**

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

Concentration of long-term loans to banks

As at 31 December 2016, long-term loans and trade financing loans to five banks (31 December 2015: five banks) with the total amount of loans to each of them exceeding 10% of total loans to banks were recorded on the Group's balance sheet. As at 31 December 2016, the total amount of such major loans was EUR 74,787 thousand (31 December 2015: EUR 85,238 thousand) and no impairment allowances (31 December 2015: no allowances) have been made for them.

(Thousands of euros)

11. Loans to customers

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

	2016	*2015*
Republic of Bulgaria	65,922	57,917
Russian Federation	61,213	28,160
Romania	40,235	25,844
Republic of Ecuador	39,570	18,249
Republic of Panama	36,276	–
Czech Republic	22,930	–
Slovak Republic	8,411	23,437
USA	6,108	–
Mongolia	5,683	21,890
Gross loans to customers	**286,348**	**175,497**
Less: allowance for loan impairment	(17,312)	(9,755)
Loans to customers	**269,036**	**165,742**

The information on the overdue loans as at 31 December 2016 and 31 December 2015 is stated below:

	2016	*2015*
Loans with overdue principal and/or interest	14,769	14,858
Less: allowance for loan impairment	(14,769)	(9,755)
Overdue loans to customers	**–**	**5,103**

As at 31 December 2016 and 31 December 2015, there were no overdue but not impaired loans.

Allowance for impairment of loans to customers

A reconciliation of the allowance for loan impairment by country is as follows:

	Slovak Republic	*Republic of Bulgaria*	*Romania*	*Total*
At 1 January 2016	**3,000**	**6,755**	**–**	**9,755**
Net charge for the period	5,103	200	2,254	**7,557**
At 31 December 2016	**8,103**	**6,955**	**2,254**	**17,312**
Individual impairment	**8,103**	**6,666**	**–**	**14,769**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**8,103**	**6,666**	**–**	**14,769**

	Slovak Republic	*Republic of Bulgaria*	*Total*
At 1 January 2015	**3,589**	**–**	**3,589**
Net (reversal)/charge for the period	(589)	6,755	**6,166**
At 31 December 2015	**3,000**	**6,755**	**9,755**
Individual impairment	**3,000**	**6,755**	**9,755**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**8,103**	**6,755**	**14,858**

(Thousands of euros)

11. Loans to customers (continued)

The following table provides an analysis of the customer loan portfolio, net of allowance for impairment, by types of collateral as at 31 December 2016 and 31 December 2015:

	2016		*2015*	
	Loans net of allowance for impairment	***Share in the total loans, %***	***Loans net of allowance for impairment***	***Share in the total loans, %***
State guarantees	75,845	28.2	18,249	11.0
Pledge of real property (mortgage) and title	25,811	9.6	35,896	21.6
Pledge of right of claim	22,970	8.5	18,492	11.2
Corporate guarantees	22,930	8.5	–	–
Pledge of equipment and goods in turnover	22,641	8.4	13,281	8.0
Pledge of shares	21,579	8.0	29,952	18.1
Pledge of vehicles	2,756	1.0	–	–
Uncollateralized part of the loans	74,504	27.8	49,872	30.1
Total loans to customers	**269,036**	**100.0**	**165,742**	**100.0**

Analysis of collateral for loans to customers

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.

Concentration of loans to customers

As at 31 December 2016, loans to three borrowers (2015: two) with the total amount of loans to each of the two borrowers exceeding 10% of total loans to customers were recorded on the Group's balance sheet. As at 31 December 2016, these loans comprised EUR 107,191 thousand (2015: EUR 40,991 thousand) in total and no impairment allowances (2015: no allowances) have been made for them.

Analysis of loans to customers by industry

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

	2016	*2015*
Leasing	85,897	44,114
Production and transmission of electricity	39,570	14,688
Food and beverage	27,504	7,569
Chemical production	23,831	22,743
Metal working industry	22,930	–
Manufacturing of electrical equipment	20,809	21,208
Construction	14,769	29,179
Agriculture	14,295	4,942
Transport	13,752	15,001
Crude oil refining	10,002	9,989
Production of pharmaceutical products	6,645	–
Trading	6,036	5,418
Other	308	646
	286,348	**175,497**
Less: allowance for loan impairment	(17,312)	(9,755)
Loans to customers	**269,036**	**165,742**

(Thousands of euros)

12. Investment property

In 2016 and 2015, the following changes occurred in the cost of property under operating lease:

	2016	*2015*
At 1 January	**33,819**	**52,879**
Additions	14,324	–
Inseparable improvements	50	33
Transfers in the property and equipment	(24,179)	(16,593)
Effect of revaluation	(2,174)	(2,500)
Carrying amount at 31 December	**21,840**	**33,819**

In 2016, the Group received collateral in the form of an administrative building in the city of Ulan Bator, Mongolia.

The Group rents buildings under operating lease agreements. In 2016, the Group's income from lease of investment property amounted to EUR 3,442 thousand (2015: EUR 5,214 thousand).

As at 31 December 2016, the fair value of investment property is determined based on the results of valuation performed on 31 December 2016. The valuation services were performed by an independent firm of professional appraisers which have acknowledged qualification and relevant professional experience in appraising real property of a similar category and in a similar location.

The fair value is determined by reference to market-based evidence. For further details on the fair value of investment property refer to Note 24.

If the investment property was measured using the cost method, the carrying amounts as at 31 December 2016 and 31 December 2015 would be as follows:

	2016	*2015*
Cost	20,091	20,264
Additions	50	–
Accumulated depreciation	(2,370)	(8,092)
Net book value	**17,771**	**12,172**

The Group has neither restrictions on the sale of its investment property nor contractual obligations to purchase, construct or develop investment properties, or to repair, maintain and enhance them.

(Thousands of euros)

13. Property, equipment and intangible assets

The movements in property, equipment and intangible assets for the years 2016 and 2015 were as follows:

	Buildings	*Equipment*	*Computers and software*	*Office furniture*	*Vehicles*	*Intangible assets*	*Other*	*Capital expenditure*	*Total*
Cost or revalued amount									
At 1 January 2016	**62,807**	**7,073**	**3,278**	**296**	**808**	**325**	**176**	**1,591**	**76,354**
Additions	–	–	–	–	–	–	–	1,754	**1,754**
Transfers from the investment property	24,179	–	–	–	–	–	–	–	**24,179**
Transfers	223	436	83	22	–	2,147	7	(2,918)	**–**
Disposals	–	(9)	–	(11)	–	–	–	–	**(20)**
Recovery of accumulated depreciation upon revaluation	(1,057)	–	–	–	–	–	–	–	**(1,057)**
Effect of revaluation	(18,508)	–	–	–	–	–	–	–	**(18,508)**
At 31 December 2016	**67,644**	**7,500**	**3,361**	**307**	**808**	**2,472**	**183**	**427**	**82,702**
Accumulated depreciation									
At 1 January 2016	–	**(6,547)**	**(2,445)**	**(228)**	**(477)**	**(165)**	**(99)**	**–**	**(9,961)**
Charge for the period	(1,174)	(209)	(285)	(19)	(103)	(178)	(6)	–	**(1,974)**
Disposals	–	9	–	11	–	–	–	–	**20**
Recovery of accumulated depreciation upon revaluation	1,057	–	–	–	–	–	–	–	**1,057**
At 31 December 2016	**(117)**	**(6,747)**	**(2,730)**	**(236)**	**(580)**	**(343)**	**(105)**	**–**	**(10,858)**
Net book value									
At 31 December 2015	**62,807**	**526**	**833**	**68**	**331**	**160**	**77**	**1,591**	**66,393**
At 31 December 2016	**67,527**	**753**	**631**	**71**	**228**	**2,129**	**78**	**427**	**71,844**

(Thousands of euros)

13. Property, equipment and intangible assets (continued)

	Buildings	*Equipment*	*Computers and software*	*Office furniture*	*Vehicles*	*Intangible assets*	*Other*	*Capital expenditure*	*Total*
Cost or revalued amount									
At 1 January 2015	**50,806**	**7,069**	**3,095**	**298**	**923**	**160**	**188**	**766**	**63,305**
Inseparable improvements	52	–	–	–	–	–	–	–	**52**
Additions	–	–	–	–	–	–	–	1,780	**1,780**
Transfers from the investment property	16,593	–	–	–	–	–	–	–	**16,593**
Transfers	–	179	505	4	102	165	–	(955)	**–**
Disposals	–	(175)	(322)	(6)	(217)	–	(12)	–	**(732)**
Recovery of accumulated depreciation upon revaluation	(1,002)	–	–	–	–	–	–	–	**(1,002)**
Effect of revaluation	(3,642)	–	–	–	–	–	–	–	**(3,642)**
At 31 December 2015	**62,807**	**7,073**	**3,278**	**296**	**808**	**325**	**176**	**1 591**	**76,354**
Accumulated depreciation									
At 1 January 2015	**(67)**	**(6,523)**	**(2,537)**	**(214)**	**(598)**	**(53)**	**(106)**	**–**	**(10,098)**
Charge for the period	(935)	(176)	(229)	(18)	(96)	(112)	(6)	–	**(1,572)**
Disposals	–	152	321	4	217	–	13	–	**707**
Recovery of accumulated depreciation upon revaluation	1,002	–	–	–	–	–	–	–	**1,002**
At 31 December 2015	**–**	**(6,547)**	**(2,445)**	**(228)**	**(477)**	**(165)**	**(99)**	**–**	**(9,961)**
Net book value									
At 31 December 2014	**50,739**	**546**	**558**	**84**	**325**	**107**	**82**	**766**	**53,207**
At 31 December 2015	**62,807**	**526**	**833**	**68**	**331**	**160**	**77**	**1,591**	**66,393**

As at 31 December 2016, the cost of fully depreciated property and equipment still used by the Group was EUR 7,982 thousand (31 December 2015: EUR 7,977 thousand).

(Thousands of euros)

13. Property, equipment and intangible assets (continued)

As at 31 December 2016, the fair value of a group of buildings owned by the Group is determined based on the results of valuation performed on 31 December 2016. The valuation services were performed by an independent firm of professional appraisers which have acknowledged qualification and relevant professional experience in appraising real property of a similar category and in a similar location.

The fair value is determined by reference to market-based evidence. For further details on the fair value of property and equipment refer to Note 24.

If the buildings were measured using the cost method, the carrying amounts as at 31 December 2016 and 31 December 2015 would be as follows:

	2016	*2015*
Cost	52,132	37,583
Additions	223	52
Accumulated depreciation	(20,871)	(15,029)
Net book value	**31,484**	**22,606**

14. Other assets and liabilities

Other assets comprise:

	2016	*2015*
Financial assets		
Settlements on bank transactions	1,814	1,525
Accounts receivable on business operations	1,394	1,202
Other financial assets	136	–
	3,344	**2,727**
Less: allowance for impairment	(1,924)	(1,633)
Total financial assets less allowance	**1,420**	**094**
Non-financial assets		
Assets held-for-sale – real estate	89	–
Inventories – real estate	55	43
Other non-financial assets	755	673
Total non-financial assets	**899**	**716**
Total other assets	**2,319**	**1,810**

The movements in other impairment allowance are as follows:

	2016	*2015*
Allowance at 1 January	**1,633**	**1,763**
Reversal charge for the year	(67)	(89)
Change in allowance resulting from changes in exchange rates	358	(41)
Allowance at 31 December	**1,924**	**1,633**

(Thousands of euros)

14. Other assets and liabilities (continued)

Other liabilities comprise:

	2016	*2015*
Financial liabilities		
Other accounts payable on business operations	1,182	1,063
Other accounts payable on bank transactions	662	–
Other financial liabilities	19	–
Total financial liabilities	**1,863**	**1,063**
Non-financial liabilities		
Settlements with employees	3,647	2,975
Other non-financial liabilities	72	50
Total non-financial liabilities	**3,719**	**3,025**
Total other liabilities	**5,582**	**4,088**

15. 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:

	2016	*2015*
Due to banks up to 1 year		
Term deposits of banks and other financial institutions	52,856	48,617
Total due to banks up to 1 year	**52,856**	**48,617**
Due to banks over 1 year		
Repurchase agreements	66,069	64,756
Total due to banks over 1 year	**66,069**	**64,756**
Total due to banks	**118,925**	**113,373**

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 31 December 2016, the Group has two counterparties (31 December 2015: three counterparties) accounting for over 10% of the Group's total deposits from banks and other financial institutions in the amount of EUR 111,418 thousand (31 December 2015: EUR 104,873 thousand).

16. Long-term loans of banks

Long-term loans of banks comprise:

	2016	*2015*
Syndicated loans	59,039	–
Loans of banks	14,310	44,187
Total long-term loans of banks	**73,349**	**44,187**

In June 2016 the Group received a syndicated loan in the amount of EUR 60,000 thousand with a floating rate of EURIBOR (6 months) + 1.75% p. a. and maturing in May 2018.

17. Debt securities issued

Debt securities issued comprise:

	Interest rate, % p.a.	*Maturity*	*2016*	*2015*
RUB-denominated bonds	0.1-12.3	2024-2025	151,516	158,067
EUR-denominated bonds	3.5	2019	30,127	30,100
RON-denominated bonds	3.4-4.1	2018-2019	90,885	24,557
Total bonds			**272,528**	**212,724**

On 27 September 2016, the Group issued bonds denominated in Romanian lei in the amount of RON 300 million (EUR 67,398 thousand) maturing in three years. The coupon rate on the bonds was set at 3.4% payable annually with the first coupon payment to be made on 27 September 2017.

Among other things, the Group used the proceeds from the offerings to expand its loan portfolio.

At the dates of placement of the RUB-denominated bonds, the Group entered into cross-currency interest rate swaps for the purpose of managing currency risks (Note 7).

On 31 October 2016, the Bank offered to repurchase RUB-denominated bonds, series 02, and repurchased almost the total amount of those bonds RUB 2 998,0 thousand (EUR 43,327 thousand) from investors. A new coupon rate of 0.1% p.a. was set.

18. Equity

Subscribed and paid-in capital

The Bank's subscribed capital amounts to EUR 1,300,000 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 31 December 2016, the unpaid portion of the Bank's subscribed capital in the amount of EUR 986,947 thousand (31 December 2015: EUR 996,947 thousand) is the amount of contributions that have not been made yet by the Bank's member countries and the amount of unallocated equity contributions totaling EUR 175,500 thousand (31 December 2015: EUR 175,500 thousand).

On 9 March 2016, in accordance with the Memorandum of Understanding singed at the 102nd meeting of the IIB's Council (20-21 November 2014), the Government of Hungary contributed EUR 10,000 thousand to the Bank's equity. On 18 May 2015, the Government of Hungary contributed EUR 10,000 thousand to the Bank's equity to resume its full membership. In accordance with the Memorandum of Understanding singed at the 102nd meeting of the IIB's Council (20-21 November 2014), the Bank added EUR 10,000 thousand to the contribution of Hungary out of retained earnings for the previous years. On 29 July in accordance with the Memorandum of Understanding singed at the 102nd meeting of the IIB's Council (20-21 November 2014), the Bank fulfilled its obligations to transfer the second payment in the amount of EUR 10,000 thousand out of retained earnings for the previous years as Hungary's additional contribution to the Bank's share capital.

As a result, the paid-in capital of the International Investment Bank totaled EUR 313,053 thousand (31 December 2015: EUR 303,053 thousand).

(Thousands of euros)

18. Equity (continued)

Revaluation reserve for available-for-sale investment securities and revaluation reserve for property and equipment

The movements in the revaluation reserve for available-for-sale investment securities and revaluation reserve for property and equipment were as follows:

	Revaluation reserve for available-for-sale investment securities	*Revaluation reserve for property and equipment*
At 1 January 2015	**(999)**	**35,095**
Net unrealized gains on available-for-sale investment securities	2,539	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(3,204)	–
Revaluation of buildings	–	(3,642)
At 31 December 2015	**(1,664)**	**31,453**
Net unrealized gains on available-for-sale investment securities	10,673	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(10,515)	–
Revaluation of buildings	–	(18,508)
At 31 December 2016	**(1,506)**	**12,945**

Revaluation reserve for available-for-sale investment securities

The revaluation reserve for available-for-sale investment securities records fair value changes of available-for-sale investments.

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.

19. Contingencies and loan commitments

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 Group, 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.

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.

(Thousands of euros)

19. Contingencies and loan commitments (continued)

Commitments and contingencies

At any time the Group may have outstanding commitments to extend loans. These commitments take the form of approved loan agreements.

As at 31 December 2016, commitments and contingencies of the Group comprised off-balance credit-related commitments, in particular undrawn loan facilities and reimbursement obligations.

Off-balance credit-related commitments are presented in the table below as at 31 December 2016 and 31 December 2015.

	2016	*2015*
Undrawn loan facilities	33,103	52,376
Reimbursement obligations	9,898	6,796
Guarantees issued	4,934	4,556
Total off-balance commitments	**47,935**	**63,728**

20. Leases

Group as lessor

The Group provides its investment property for operating leases. As at 31 December 2016, the Group's non-cancelable operating lease rentals amount to EUR 4,752 thousand (31 December 2015: EUR 5,938 thousand) and will be settled within 1-5 years.

21. Interest income and interest expense

Net interest income comprises:

	2016	*2015*
Loans to customers	13,886	8,022
Loans to banks	6,462	7,058
Available-for-sale investment securities	5,091	2,165
Held-to-maturity investment securities	2,975	5,944
Deposits with banks and other financial institutions, including cash and cash equivalents	4,041	3,943
Interest income	**32,455**	**27,132**
Debt securities issued	(22,511)	(14,812)
Funds raised under repurchase agreements	(1,839)	(819)
Long-term loans of banks	(1,798)	(1,247)
Due to banks and other financial institutions	(1,198)	(609)
Current customer accounts	(305)	(257)
Interest expenses	**(27,651)**	**(17,744)**
Net interest income	**4,804**	**9,388**

In 2016, there was no interest income accrued on impaired loans issued (2015: EUR 185 thousand).

(Thousands of euros)

22. General and administrative expenses

General and administrative expenses comprise:

	2016	*2015*
Employee compensations and employment taxes	13,001	11,471
Depreciation of property, equipment and intangible assets (Note 13)	1,974	1,572
IT-expenses, inventory and occupancy expenses	1,715	1,293
Professional services	1,019	466
Expenses related to business travel, representative and accommodation expenses	682	1,277
Other	548	829
General and administrative expenses	**18,939**	**16,908**

23. Risk management

Risk management framework

The Group's risk management policy is based on the conservative assessment approach and is mainly aimed at mitigation of 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 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 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 situation on the financial markets.

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 the evaluating, assuming, and controlling risks ("Three lines of defense"):

- Risk-taking (1st line of defense): the Group's divisions directly preparing and conducting transactions, 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 (2nd 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 (3rd line of defense): independent quality assessment for existing risk management processes, identification of violations, and proposals for the improvement of the risk management system.

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

The Bank's Council, the Board, the Finance Committee, the Credit Committee and the Risk Management Department are responsible for managing the Group's risks.

(Thousands of euros)

23. Risk management (continued)

Risk management framework (continued)

The Bank's Council is responsible for the general control over the risk management system, determines its development strategy and sets strategic limits and risk appetite.

The Board is the executive body of the Bank, which is responsible for compliance with risk management policies and procedures and exercises control over ratios, limits and risk appetite set by the Council. The Board ensures co-operation among all divisions and committees of the Bank.

The Finance Committee determines the Bank's approaches to forming the optimal structure of the Bank's balance sheet, taking into account information of current and expected level of risks associated with assets and liabilities management within the established limits and other restrictions. It also ensures management and control over the credit risk, market risk, operational risk, reputational risk, legal risk and liquidity risk and reviews the limit-setting offers.

The Credit Committee manages the Bank's loan portfolio in accordance with its effective lending policy, aligns operation of the Group's divisions in terms of the credit risk management and reviews the offers for setting credit risk limits in respect of the certain counterparties.

Committees meet on a regular basis and provide to the Board their recommendations on how to perform transactions and improve risk management policies and procedures.

The Risk Management Department collects and analyzes information related to all types of bank risks, develops and implements risk management methodology, performs their qualitative and quantitative assessment, prepares recommendations for the Board and committees of the Bank to mitigate risk impact on the Group's performance.

During 2016, further development of the risk management system started in 2013 was aimed at implementation of Basel standards and best practices of development banks within the Group:

- New methodological and regulatory documents relating to credit and operational risk management have been elaborated.
- The Group continued to implement the target model of the risk management system, based on requirements of the leading rating agencies.

In compliance with the existing procedures, twice a year the Group sets and reviews limits for counterparties for the purpose of performing financial transactions and assessing their creditworthiness. As part of the lending activity analysis, the Group continuously monitored the level of its loan assets risk. During the reporting period, the Group sent its specialists to certain borrowers in order to monitor the implementation of the projects and identify potential primary evidence of impairment of loan assets.

To control and monitor the compliance with limits, the Group performs daily monitoring of compliance with restrictions set in the list of the Bank's limits applied to transactions on money, currency and equity markets, as well as structural limits and stop-loss limits. In addition, the Group's management receives regular reports on the status of risks within the Group.

Risk appetite

The risk appetite is the aggregate amount of risk taken by the Group to achieve its strategic goals and objectives. By approving the level of risk appetite, the Bank's Council determines the willingness to accept a risk or the amount of equity and liquidity that the Bank is willing to risk in the implementation of this strategy.

Risk appetite consists of 4 main components:

- The allocation of capital and liquidity (if necessary).
- Target allocation of capital across the main types of risk.
- The level of risk and target risk appetite in the context of the main performance indicators of the Group and risks significant for the Group.
- Determining levels of tolerance.

(Thousands of euros)

23. Risk management (continued)

Risk management framework (continued)

The procedure for determining the Group's risk appetite shall be defined by the Credit Risk Management Department and submitted for review by the Board and approval by the Council of the Bank.

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

In determining the risk appetite, the Group assesses whether the specified risk appetite is acceptable in the current time period and whether it will be acceptable in the future, taking into account:

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

Based on the risk appetite determined by the Council, the Board annually approves the Group's limits, sublimits, and risk indicators, which should not exceed the target values of the risk appetite.

Risk identification

The Group identifies and manages both external and internal risk factors throughout its organizational structure. As a result of regular analysis of the Group's exposure to different types of risks performed by the Risk Management Department, the Group identifies factors leading to the increase of the risk level and determines the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks influencing the results of banking transactions. Current risks exposures and their projected changes are discussed during the meetings of the Finance Committee and, if necessary, also communicated to the Board along with the recommendations on possible risk mitigation measures.

Risk assessment, management and control

The Group's risk exposure is primarily reduced by means of collective decision--making. Strict allocation of responsibilities between divisions and officers of the Group, precise description of instructions and procedures and assignment of competencies and powers to departments and their heads are also important risk mitigation factors. Appropriate methodologies are used to assess the risks. Instructions, procedures and methodologies are regularly reviewed and, if necessary, updated by the Group in order to reflect changed market conditions and improve the risk management methodology.

The risk monitoring system comprises:

- Establishing limits to assume risks based on the respective risk assessment.
- Exercising control over the Group's exposure by means of compliance with the established limits, regular assessment of the Group's risk exposure, and internal audit of risk management systems.

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

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

(Thousands of euros)

23. Risk management (continued)

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 discharged 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.

System of credit risk management

The Group's regulatory documents establish the following:

- Procedures to review and approve loan/credit applications.
- Methodology for the credit assessment of borrowers, counterparties, issuers and insurance companies.
- Requirements to the credit documentation.
- Procedures for the ongoing monitoring of loans and other credit exposures.

The Credit Committee establishes the limits per borrower/group of related borrowers. The Credit Committee structures the transaction to minimize credit risk. The Loan Operations Analysis Department is responsible for ongoing control over the quality of the Group's loan portfolio.

Upon preparation of a transaction by the initiating unit it is reviewed by the Credit Committee, and then it is approved by the Board. The Board is responsible for all direct credit risk exposures in the amount of up to 15% of the Group's share capital and for the period of up to 7 years. Direct credit risks exposures exceeding the specified amount or the period of 7 years should be approved by the Bank's Council.

The corporate loan/credit application and appropriate project documents are reviewed by the Customer Relations Department. Customer Relations Department takes a decision on the preliminary of starting information on the deal whether to continue work with the client or not. In case of a positive decision, Credit Department makes full examination of the deal and sends the full set of required documents for reviewing the loan/credit application to Legal Department, Risk Management Department, Security Department, Strategic Development and Analysis Department, Internal Control Department, Compliance Control Department, Operational Department, Financial Department, Structured and Debt financing Department. These departments prepare expert opinions in the framework of their competence. The loan/credit application is subject to review by the Credit Committee based on the Credit Department's Description of the Investment Transaction and expert opinions received form the departments. The procedure of making lending decisions comprises the following steps: Step 1 includes reviewing application and making decision by the Credit Committee (if such issue falls within its competence); Step 2 includes making decision by the Board of the Group (if such issue falls within its competence); Step 3 includes sending a set of respective documents approved by the Board of the Group to the member country in order to obtain the final approval from the country of origin of the borrower or making decision by the Council of the Group (if such issue falls within its competence).

Apart from individual customer analysis, the Risk Management Department assesses the whole loan portfolio with regard to credit concentration by industry.

To mitigate credit risk, the Group limits concentrations of exposure to individual customers, counterparties and issuers, groups of related customers, counterparties and issuers as well as by industry and credit rating (for securities). Credit risk management process is based on regular analysis of the creditworthiness of the borrowers and their ability to repay interest and principal of debt, and on correspondent limits modification (if necessary).

The Group continuously monitors the quality of individual credit exposures and regularly reassesses the creditworthiness of its customers. The revaluation is based on the customer's most recent financial statements, past-due status, performance of its business plan and other information submitted by the borrower, or otherwise obtained by the Group. Based on this information, the borrower's internal credit rating (class of the loan) may be revised and, accordingly, the appropriate loan impairment provision may be created or changed.

(Thousands of euros)

23. Risk management (continued)

Credit risk (continued)

Collateral and other credit enhancements

Credit risk is also managed by obtaining pledge of real estate, assets and securities, and other collateral, including corporate and personal guarantees, as well as monitoring availability and value of collateral.

As availability of collateral is important to mitigate credit risk, this factor is a priority for the Group when reviewing loan/credit applications if their terms and conditions are similar. To ensure recovery of its resources associated with conducting lending and project-financing transactions, the Group applies the following types of collateral for recovery of loans and fulfillment of obligations:

- Pledge of equipment and goods in turnover;
- Pledge of real estate (mortgage) and title;
- Pledge of rights of demand and construction.

Quality of the collateral provided is assessed by the following criteria: safety, adequacy and liquidity. Collateral is not generally held over loans and deposits, except where securities are held as collateral in reverse repurchase agreements.

The Group assumes that the fair value of the collateral is its value estimate recognized by the Group to calculate the discounted impairment allowance based on its liquidity and possibility of selling such property in the event of borrower's default considering the time needed for such sale, litigation and other costs. Current market value of the collateral, if necessary, is assessed by accredited appraisers or based on the Group's internal expert estimate, or carrying amount of the collateral including adjustment coefficient (discount). Where the market value of the collateral is assessed as impaired, the borrowers are usually required to provide additional collateral.

Portfolio of loans to banks and customers (less allowance for impairment) by type of collateral is analyzed in Notes 10 and 11.

Maximum exposure to credit risk

The maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where the financial instruments are recorded at fair value, their carrying amounts represent the current credit risk exposure but not the maximum credit risk exposure that could arise in the future as a result of changes in values.

Analysis of credit risk concentration by customers' industry is presented in Note 11.

Maximum credit risk exposure by credit related commitment represents the whole amount of these commitments (Note 19).

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Credit quality per class of financial assets

The assessment of credit quality of assets is based on the qualitative and quantitative assessment of credit risk.

Deposit contracts with banks and other financial institutions are concluded with counterparties with acceptable credit ratings assigned by such internationally recognized rating agencies as Standard & Poor's, Fitch and Moody's.

23. Risk management (continued)

Credit risk (continued)

Assessment of credit quality of loans is based on a 5-grade system of risk factor categories: standard, sub-standard, doubtful, impaired and uncollectible. The risk factor category is assigned on the basis of the assessment of the customer's financial position, payment discipline, credit history, compliance with 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.

The following table provides information on the credit quality of long-term loans to banks and trade financing loans (Note 10) and loans to customers (Note 11) as at 31 December 2016 and 31 December 2015:

2016	*Loan amount*	*Allowance for impairment*	*Loan amount, including allowance for impairment*	*Impairment to loan amount ratio, %*
Trade financing loans without any signs of impairment identified				
Standard loans				
- *Russian Federation*	953	–	953	–
Long-term loans to banks without any signs of impairment identified				
Standard loans				
- *Mongolia*	47,970	–	47,970	–
- *Russian Federation*	26,425	–	26,425	–
- *Socialist Republic of Vietnam*	19,019	–	19,019	–
	94,367	**–**	**94,367**	**–**
Loans to customers without any signs of impairment identified				
Standard loans				
- *Russian Federation*	61,213	–	61,213	–
- *Republic of Bulgaria*	53,477	–	53,477	–
- *Republic of Ecuador*	39,570	–	39,570	–
- *Republic of Panama*	36,276	–	36,276	–
- *Romania*	25,205	–	25,205	–
- *Czech Republic*	22,930	–	22,930	–
- *USA*	6,108	–	6,108	–
- *Mongolia*	5,683	–	5,683	–
- *Slovak Republic*	308	–	308	–
Watch loans to customers				
- *Romania*	15,030	(2,254)	12,776	15.0
Restructured loans				
- *Republic of Bulgaria*	5,779	(289)	5,490	5.0
Uncollectible loans				
- *Slovak Republic*	8,103	(8,103)	–	100
- *Republic of Bulgaria*	6,666	(6,666)	–	100
	286,348	**(17,312)**	**269,036**	**6.0**
Total loans	**380,715**	**(17,312)**	**363,403**	**4.5**

23. Risk management (continued)

Credit risk (continued)

2015	*Loan amount*	*Allowance for impairment*	*Loan amount, including allowance for impairment*	*Impairment to loan amount ratio, %*
Long-term loans to banks without any signs of impairment identified				
Standard loans				
- *Russian Federation*	64,223	–	64,223	–
- *Mongolia*	43,044	–	43,044	–
- *Socialist Republic of Vietnam*	33,330	–	33,330	–
	140,597	**–**	**140,597**	**–**
Loans to customers without any signs of impairment identified				
Standard loans				
- *Republic of Bulgaria*	51,162	–	51,162	–
- *Russian Federation*	28,160	–	28,160	–
- *Romania*	25,844	–	25,844	–
- *Mongolia*	21,890	–	21,890	–
- *Republic of Ecuador*	18,249	–	18,249	–
- *Slovak Republic*	15,334	–	15,334	–
Uncollectible loans				
- *Slovak Republic*	8,103	(3,000)	5,103	37
- *Republic of Bulgaria*	6,755	(6,755)	–	100
	175,497	**(9,755)**	**165,742**	**5.6**
Total loans	**316,094**	**(9,755)**	**306,339**	**3.1**

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Renegotiated loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual impairment assessment, calculated using the loan's original effective interest rate.

Impairment assessment

The Group creates allowance for impairment of loans that represents its estimate of losses incurred in its loan portfolio. The Group writes off a loan balance against related allowances for impairment of loans only subject to the approval of the Council and where the loan is determined as uncollectible and when all necessary steps to collect the loan are completed. Such decision is made after consideration of the information on significant changes in the borrower's financial position such as inability to repay the loan, and when proceedings from disposal of the collateral are insufficient to cover the debt amount in full.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Due to a limited number of borrowers, the Group considers each loan as individually significant. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of financial support, the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, or more frequently, unless unforeseen circumstances require more careful attention.

The total amount of impairment allowance is approved by the Credit Committee on a monthly basis.

(Thousands of euros)

23. Risk management (continued)

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

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 the *IIB's Assets and Liabilities Management Policy*, as an integral part of general function of the Group's management.

Decision making matrix related to liquidity management includes a strategic level of liquidity management (the Council), tactical level (the Board and special-purpose committees) and operational level (responsible structural divisions). In 2015, the Group updated its approaches to the assets and liabilities management.). Asset and Liability Management Department (DUAP or ALM Unit) became responsible for organizing and aligning management of the Group's liquidity position. The Group manages its liquidity position in accordance with planning horizons (up to 6 months) and possible scenarios of movements in liquidity position (stable, stressed).

Main instrument of liquidity position management under the stable scenario is a Plan of cash flows defining the cash flow by balance sheet products/instruments and taking into account the plan of future financial operations. The Group determines the balance sheet gaps, payment schedule and need in financing of future operations based on the Plan of cash flows. As a result of application of these instruments, DUAP issues appropriate recommendations to responsible structural divisions.

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 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 Bank of Russia. The Group calculates its liquidity reserves as at the reporting date and for the next six monthly reporting dates (forecast). Liquidity buffer may be used to close the negative net position. As at 31 December 2016, the liquidity buffer amounts to EUR 75.9 mln (31 December 2015: EUR 65.1 mln).

The table below shows the contractual expiry by maturity of the Group's off-balance credit-related commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

	2016	*2015*
Less than 1 month	33,213	52,376
1 to 3 months	3,650	178
3 months to 1 year	6,138	7,254
1 to 5 years	4,934	3,920
Off-balance credit-related commitments	**47,935**	**63,728**

(Thousands of euros)

23. Risk management (continued)

Liquidity risk (continued)

The following table provides an analysis of assets and liabilities on the basis of the remaining period from the reporting date to the contractual maturity date. Quoted available-for-sale debt securities were included in “Less than 1 month” category as they are highly liquid investment securities, which the Group may sell in the short term on the arm-length basis. Available-for-sale investment securities pledged under repurchase agreements are presented on the basis of periods from the reporting date to the expiry date of respective contractual obligations of the Group.

	2016							*2015*							
	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*	*No stated maturity*	*Past due*	*Total*
Assets															
Cash and cash equivalents	93,031	–	–	–	–	–	**93,031**	59,519	–	–	–	–	–	–	**59,519**
Deposits with banks and other financial institutions	14,254	–	27,472	3,611	–	–	**45,337**	15,352	15,627	54,346	15,067	–	–	–	**100,392**
Derivative financial instruments	–	116	14,246	–	–	–	**14,362**	69	–	1,775	–	–	–	–	**1,844**
Available-for-sale investment securities	170,849	379	502	97,577	–	–	**269,307**	93,027	230	65	22,733	–	4	–	**116,059**
Held-to-maturity investment securities	–	–	–	–	–	–	**–**	64	972	2,981	76,728	42,483	–	–	**123,228**
Loans to banks	–	3,059	16,638	71,051	3,619	–	**94,367**	–	3,160	41,112	76,374	19,951	–	–	**140,597**
Loans to customers	2,066	10,139	59,833	133,047	63,951	–	**271,290**	982	1,872	26,573	85,268	45,944	–	5,103	**165,742**
Other financial assets	166	123	381	750	–	–	**1,420**	69	81	944	–	–	–	–	**1,094**
Total assets	**280,366**	**13,816**	**119,072**	**306,036**	**67,570**	**–**	**786,860**	**169,082**	**21,942**	**127,796**	**276,170**	**108,378**	**4**	**5,103**	**708,475**
Liabilities															
Due to banks and other financial institutions	(48,558)	–	–	(70,367)	–	–	**(118,925)**	(28,421)	–	(20,196)	(64,756)	–	–	–	**(113,373)**
Current customer accounts	(9,218)	–	–	–	–	–	**(9,218)**	(7,430)	–	–	–	–	–	–	**(7,430)**
Derivative financial instruments	(2,080)	–	(1,671)	(7,872)	–	–	**(11,623)**	–	–	(16,191)	(13,707)	–	–	–	**(29,898)**
Long-term loans of banks	–	–	(14,345)	(59,004)	–	–	**(73,349)**	(102)	–	(24,529)	(19,556)	–	–	–	**(44,187)**
Debt securities issued	–	–	(152,484)	(120,044)	–	–	**(272,528)**	–	–	(40,111)	(172,613)	–	–	–	**(212,724)**
Other financial liabilities	(348)	–	(933)	(582)	–	–	**(1,863)**	(43)	(988)	(32)	–	–	–	–	**(1,063)**
Total liabilities	**(60,204)**	**–**	**(169,433)**	**(257,869)**	**–**	**–**	**(487,506)**	**(35,996)**	**(988)**	**(101,059)**	**(270,632)**	**–**	**–**	**–**	**(408,675)**
Net position	**220,162**	**13,816**	**(50,361)**	**48,167**	**67,570**	**–**	**299,354**	**133,086**	**20,954**	**26,737**	**5,538**	**108,378**	**4**	**5,103**	**299,800**
Accumulated net position	**220,162**	**233,978**	**183,617**	**231,784**	**299,354**	**299,354**		**133,086**	**154,040**	**180,777**	**186,315**	**294,693**	**294,697**	**298,800**	

23. Risk management (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2016 and 31 December 2015 based on contractual undiscounted repayment obligations except for gross settled derivatives that are shown by contractual maturity. Debt securities with put options (offers) are presented as if investors will exercise their options at the earliest possible date. The Group expects that it will have to make payment on current bond offers.

At 31 December 2016	*Less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Total*
Financial liabilities					
Due to banks and other financial institutions	48,590	–	–	73,120	**121,710**
Current customer accounts	–	9,218	–	–	**9,218**
Net settled derivative liabilities	2,080	–	–	–	**2,080**
Gross settled derivative financial instruments					
- Contractual amounts payable	–	47,000	147,836	166,726	**361,562**
- Contractual amounts receivable	–	(47,089)	(173,371)	(173,625)	**(394,085)**
Long-term loans of banks	–	–	15,078	60,989	**76,067**
Debt securities issued	–	–	168,367	128,406	**296,773**
Other liabilities	348	–	933	582	**1,863**
Total undiscounted financial liabilities	**51,018**	**9,129**	**158,843**	**256,198**	**475,188**

At 31 December 2015	*Less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Total*
Financial liabilities					
Due to banks and other financial institutions	–	28,443	20,293	69,386	**118,122**
Current customer accounts	–	7,430	–	–	**7,430**
Net settled derivative liabilities	(69)	–	–	–	**(69)**
Gross settled derivative financial instruments					
- Contractual amounts payable	–	–	118,408	160,641	**279,049**
- Contractual amounts receivable	–	–	(117,884)	(151,321)	**(269,205)**
Long-term loans of banks	–	–	23,473	22,303	**45,776**
Debt securities issued	–	–	50,936	201,220	**252,156**
Other liabilities	43	988	32	–	**1,063**
Total undiscounted financial liabilities	**(26)**	**36,861**	**95,258**	**302,229**	**434,322**

Market risk

Market risk is the risk that the Group shall incur losses due to adverse fluctuations in 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 Board of the Bank performs overall management of market risk.

The Finance Committee coordinates the Group's market risk management policy and reviews and provides recommendations on management of market risks to the Management Board.

The Treasury Department performs strategic management of market risks. The Risk Management Department performs the assessment of equity and currency risks exposure. The Treasury Department manages open positions within the established limits in order to increase the Group's income on a daily basis.

(Thousands of euros)

23. Risk management (continued)

Market risk (continued)

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 the 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 metals 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 currency position of the Group is carried out in major currencies and financial instruments of the Group attributable to a securities portfolio.

At 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.

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 above-mentioned risks, the Group carries out regular testing (back-testing) based on historical data, which allows evaluating the compliance of risk assessment model with the actual market situation.

As at 31 December 2016 and 31 December 2015, final data on value at risk assessment (VaR) in relation to currency and price risks assumed by the Group are represented as follows:

	2016	***2015***
Fixed income securities price risk	2,325	1,536
Currency risk	27	126

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 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.
- 10-day time horizon implies the entire Group's position over this period could have been closed or hedged. Results of 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 of the Group are exposed to the effects of fluctuations in the prevailing 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 31 December 2016 and 31 December 2015 is presented below:

	2016					*2015*				
	EUR	*USD*	*RUB*	*Other currencies*	*Total*	*EUR*	*USD*	*RUB*	*Other currencies*	*Total*
Non-derivative financial Assets										
Cash and cash equivalents	66,125	19,969	6,778	159	**93,031**	37,363	20,147	1,907	102	**59,519**
Deposits with banks and other financial institutions	40,568	4,769	–	–	**45,337**	99,990	–	402	–	**100,392**
Available-for-sale investment securities	208,628	53,070	7,609	–	**269,307**	89,426	26,633	–	–	**116,059**
Held-to-maturity investment securities	–	–	–	–	–	55,416	63,636	4,176	–	**123,228**
Long-term loans to banks	53,574	40,793	–	–	**94,367**	106,063	34,534	–	–	**140,597**
Loans to customers	131,906	137,130	–	–	**269,036**	124,751	40,991	–	–	**165,742**
Other financial assets	225	14	927	254	**1,420**	483	–	171	440	**1,094**
Total non-derivative financial assets	**501,026**	**255,745**	**15,314**	**413**	**772,498**	**513,492**	**185,941**	**6,656**	**542**	**706,631**
Liabilities										
Due to banks and other financial institutions	(36,981)	(81,944)	–	–	**(118,925)**	(52,785)	(59,706)	(882)	–	**(113,373)**
Current customer accounts	(9,089)	(129)	–	–	**(9,218)**	(7,220)	(210)	–	–	**(7,430)**
Long-term loans of banks	(59,039)	(14,310)	–	–	**(73,349)**	(7,494)	(36,693)	–	–	**(44,187)**
Debt securities issued	(30,046)	–	(151,515)	(90,967)	**(272,528)**	(30,030)	–	(158,099)	(24,595)	**(212,724)**
Other financial liabilities	(529)	(49)	(1,106)	(179)	**(1,863)**	(212)	(1)	(818)	(32)	**(1,063)**
Total non-derivative financial liabilities	**(135,684)**	**(96,432)**	**(152,621)**	**(91,146)**	**(475,883)**	**(97,741)**	**(96,610)**	**(159,799)**	**(24,627)**	**(378,777)**
Net balance sheet position (excluding derivative financial instruments)	**365,342**	**159,313**	**(137,307)**	**(90,733)**	**296,615**	**415,751**	**89,331**	**(153,143)**	**(24,085)**	**327,854**
Derivative financial instruments										
Claims	125,117	–	145,832	90,318	**361,267**	61,068	–	156,879	24,108	**242,055**
Liabilities	(224,955)	(124,785)	(8,788)	–	**(358,528)**	(210,884)	(59,225)	–	–	**(270,109)**
Net balance sheet position including derivative financial instruments	**265,504**	**34,528**	**(263)**	**(415)**	**299,354**	**265,935**	**30,106**	**3,736**	**23**	**299,800**

23. Risk management (continued)

Market risk (continued)

Interest rate risk

The Croup is exposed to the effects of fluctuations in the prevailing levels of market interest rates in its financial position and cash flows. Interest margins may increase as a result of such fluctuations but may also reduce or create losses in the event that unexpected movements arise.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on net interest income for one year, based on financial assets and financial liabilities with floating rates. The sensitivity of equity is calculated by revaluing inactive traded available-for-sale financial assets with fixed rate as at 31 December 2016 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

	Increase in basis points	*Sensitivity of the income statement*	*Sensitivity of equity*
	2016	*2016*	*2016*
RGBEY	1,00%	(956)	(233)
Libor EUR	0,12%	128	–
Libor USD	0,60%	405	–
3Y Swap-RON	0,50%	(1,148)	–
YTM 5Y USTreasuries	0,70%	973	–
YTM 5Y German Treasuries	0,40%	770	–

	Decrease in basis points	*Sensitivity of the income statement*	*Sensitivity of equity*
	2016	*2016*	*2016*
RGBEY	3,00%	2,868	699
Libor EUR	0,08%	(86)	–
Libor USD	0,08%	(54)	–
3Y Swap-RON	0,50%	1,148	–
YTM 5Y USTreasuries	0,50%	695	–
YTM 5Y German Treasuries	0,40%	(770)	–

	Increase in basis points	*Sensitivity of the income statement*	*Sensitivity of equity*
	2015	*2015*	*2015*
RGBEY	3,75%	(8,419)	–
Libor EUR	0,25%	367	–
Libor USD	0,50%	(49)	–
3Y Swap-RON	0,90%	(621)	–
YTM 5Y USTreasuries	1,00%	358	–
YTM 5Y German Treasuries	0,50%	1,554	–

	Decrease in basis points	*Sensitivity of the income statement*	*Sensitivity of equity*
	2015	*2015*	*2015*
RGBEY	3,75%	8,419	–
Libor EUR	0,25%	(367)	–
Libor USD	0,12%	12	–
3Y Swap-RON	0,90%	621	–
YTM 5Y USTreasuries	0,70%	(250)	–
YTM 5Y German Treasuries	0,50%	(1,554)	–

Indices listed in the tables above:
RGBEY – Russian Government Bonds Effective Yield until Redemption;
Libor EUR –London inter-bank EUR offer rate (3 and 6 months);
Libor USD – London inter-bank USD offer rate (1, 3 and 6 months);
3Y Swap-RON – three-year bid rate in Romanian leu on swap market
YTM 5Y USTreasuries – yield-to-maturity of five-year US Treasuries;
YTM 5Y German Treasuries – yield-to-maturity of five-year Germany Treasuries.

(Thousands of euros)

23. Risk management (continued)

Operational risk

Operational risk is a risk of loss arising from inadequate management and control procedures, fraud, inconsistent business solutions, system failures due to human errors and abuse of power, technical deficiencies, calculation errors, disasters and misuse of the Group's property.

Generally, the Board controls the risk management process as well as compliance with internal policies, approves internal regulations relating to risk management, establishes operational risks monitoring limits and allocates duties relating to operational risk management among various agencies.

The Risk Management Department controls and monitors operational risks and provides respective reporting to the Board. The current control enables to timely identify and eliminate deficiencies in policies and procedures aimed at operational risk management, as well as to cut the possibility and amount of related losses. The Group continuously seeks to enhance its business processes, operating structure and personnel incentives system in order to minimize the impact of operational risk.

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, judgment is necessarily required to interpret market data to determine the estimated 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.

(Thousands of euros)

24. Fair value measurements (continued)

Fair value hierarchy (continued)

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability, and the level of the fair value hierarchy.

	Valuation date	*Level 1 2016*	*Level 2 2016*	*Level 3 2016*	*Total 2016*
Assets measured at fair value					
Derivative financial assets	31 December 2016	–	14,362	–	**14,362**
Government bonds of member countries	31 December 2016	70,561	–	–	**70,561**
Corporate bonds	31 December 2016	194,003	4,739	–	**198,742**
Quoted equity instruments	31 December 2016	–	4	–	**4**
Investment property	31 December 2016	–	–	21,840	**21,840**
Property and equipment – buildings	31 December 2016	–	–	67,527	**67,527**
Liabilities measured at fair value					
Derivative financial liabilities	31 December 2016	–	11,623	–	**11,623**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2016	104	92,927	–	**93,031**
Deposits with banks and other financial institutions	31 December 2016	–	–	45,337	**45,337**
Loans to banks	31 December 2016	–	–	88,558	**88,558**
Loans to customers	31 December 2016	–	–	270,243	**270,243**
Liabilities for which fair values are disclosed					
Due to banks and other financial institutions	31 December 2016	–	–	118,925	**118,925**
Current customer accounts	31 December 2016	–	–	9,218	**9,218**
Long-term loans of banks	31 December 2016	–	–	73,349	**73,349**
Debt securities issued	31 December 2016	–	279,181	–	**279,181**

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(Thousands of euros)

24. Fair value measurements (continued)

Fair value hierarchy (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2015:

	Valuation date	*Level 1 2015*	*Level 2 2015*	*Level 3 2015*	*Total 2015*
Assets measured at fair value					
Derivative financial assets	31 December 2015	–	1,844	–	**1,844**
Government bonds of member countries and bonds of regional governments	31 December 2015	114,673	–	–	**114,673**
Corporate bonds	31 December 2015	1,382	–	–	**1,382**
Quoted equity instruments	31 December 2015	–	4	–	**4**
Investment property	31 December 2015	–	–	33,819	**33,819**
Property and equipment – buildings	31 December 2015	–	–	62,807	**62,807**
Liabilities measured at fair value					
Derivative financial liabilities	31 December 2015	–	29,898	–	**29,898**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2015	66	59,453	–	**59,519**
Deposits with banks and other financial institutions	31 December 2015	–	–	100,392	**100,392**
Held-to-maturity investment securities	31 December 2015	114,876	–	–	**114,876**
Long-term loans to banks	31 December 2015	–	–	139,891	**139,891**
Loans to customers	31 December 2015	–	–	165,742	**165,742**
Liabilities for which fair values are disclosed					
Due to banks and other financial institutions	31 December 2015	–	–	113,373	**113,373**
Current customer accounts	31 December 2015	–	–	7,430	**7,430**
Long-term loans of banks	31 December 2015	–	–	44,187	**44,187**
Debt securities issued	31 December 2015	–	214,734	–	**214,734**

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(Thousands of euros)

24. Fair value measurements (continued)

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 consolidated financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying amount 2016	*Fair value 2016*	*Unrecognized gain/(loss) 2016*	*Carrying amount 2015*	*Fair value 2015*	*Unrecognized gain/(loss) 2015*
Financial assets						
Cash and cash equivalents	93,031	93,031	–	59,519	59,519	–
Deposits with banks and other financial institutions	45,337	45,337	–	100,392	100,392	–
Held-to-maturity investment securities	–	–	–	123,228	114,876	(8,352)
Long-term loans to banks	94,367	88,558	(5,809)	140,597	139,891	(706)
Loans to customers	269,036	270,243	1,207	165,742	165,742	–
Financial liabilities						
Due to banks and other financial institutions	118,925	118,925	–	113,373	113,373	–
Current customer accounts	9,218	9,218	–	7,430	7,430	–
Long-term loans of banks	73,349	73,349	–	44,187	44,187	–
Debt securities issued	272,528	279,181	(6,653)	212,724	214,734	(2,010)
Total unrecognized change in unrealized fair value			**(11,255)**			**(11,068)**

Fair value measurements

The Group determines the policies and procedures for both recurring fair value measurement, such as unquoted derivatives, investment property and buildings, and for non-recurring measurement, such as inventories.

External appraisers are involved for valuation of significant assets, such as building and property. Involvement of external appraisers is decided upon by the Group's Finance Department. Unquoted derivatives are measured by the Finance Department.

Selection criteria include market knowledge, reputation, independence and compliance with professional standards.

Methodologies and assumptions

The following describes the methodologies and assumptions used to determine fair values of those financial instruments that are not recorded at fair value in these consolidated financial statements.

Assets for which fair value approximates their carrying amount

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value.

Cash and cash equivalents, deposits with banks and other financial institutions

Management has estimated that as at 31 December 2016 and 31 December 2015 the fair value of deposits with banks and other financial institutions, and cash and cash equivalents was not significantly different from their respective carrying amount. This is due to the existing practice of renegotiating interest rates to reflect current market conditions, and, therefore, a majority of balances carries interest at rates approximating market interest rates.

(Thousands of euros)

24. Fair value measurements (continued)

Methodologies and assumptions (continued)

Financial instruments with fixed and floating rate

The fair value of instruments with floating interest rates is approximately equal to their carrying amount. In case of significant changes of the market situation the interest rates on loans to customers and banks, and long-term loans of banks at a fixed interest rate may be revised. Consequently the interest rates on the financial instruments issued or received shortly before the balance sheet date are not significantly different from the current interest rates for new instruments with similar credit risk and a similar maturity. If the Group determines that the rates for loans issued or borrowings are significantly different from the current market rates, the Group determines the fair value of such loans issued and borrowings. The valuation is based on discounted cash flow method using current market interest rates for the financial instruments with similar credit risk and similar maturity. The discount rates depend on the currency, the maturity of the instrument and the credit risk of the counterparty. The Group determines that the fair value of due to banks and other financial institutions and long-term loans of banks did not differ significantly from their carrying amounts as at 31 December 2016 and 31 December 2015.

Investment property

The Group engages an independent appraiser for the investment property fair value measurement. As at the valuation date (31 December 2016), the fair values of investment property were based on the results of valuation performed by an accredited independent appraiser and the prices of market transactions using the market, cost and income approaches to fair value measurement.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behavior that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

Property and equipment - buildings

Fair value of the properties was determined using the market approach. This means that valuations performed by the appraiser are based on market transaction prices, significantly adjusted for difference in the nature, location or condition of the specific property. As at the valuation date (31 December 2016), the properties' fair values are based on valuations performed by an accredited independent appraiser and the prices of market transactions using the market, cost and income approaches to fair value measurement.

Significant unobservable inputs in determining the fair value of real estate properties

As at the valuation date (31 December 2016), the significant unobservable inputs used in determining the fair value of real estate properties included the average asking prices for sale of similar properties ranging from EUR 3,094 per. sq. m (range minimum) to EUR 4,186 per sq. m (range maximum), and lease rates ranging from EUR 371 per sq. m. a year (minimum) to EUR 407 per sq. m. a year (maximum).

There were no transfers of financial instruments between level 1 and level 2 in 2016 and 2015.

(Thousands of euros)

24. Fair value measurements (continued)

Movements in level 3 assets and liabilities at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 assets and liabilities that are recorded at fair value:

	At 1 January 2016	*Gains/(losses) recorded in profit or loss*	*Gains/(losses) recorded in comprehensive income*	*Purchases*	*Transfer in property and equipment*	*At 31 December 2016*
Assets						
Property and equipment – buildings	62,807	(1,174)	(18,508)	223	24,179	67,527
Investment property	33,819	(2,174)	–	14,374	(24,179)	21,840
Total	**96,626**	**(3,348)**	**(18,508)**	**14,597**	**–**	**89,367**

	At 1 January 2015	*Gains/(losses) recorded in profit or loss*	*Gains/(losses) recorded in comprehensive income*	*Purchases*	*Transfer in property and equipment*	*At 31 December 2015*
Assets						
Property and equipment – buildings	50,739	(935)	(3,642)	52	16,593	62,807
Investment property	52,879	(2,500)	–	33	(16,593)	33,819
Total	**103,618**	**(3,435)**	**(3,642)**	**85**	**–**	**96,626**

25. Transferred financial assets that are not derecognized

The table below provides a summary of the financial assets transferred by the Group in such a way that all the transferred financial assets do not qualify for derecognition:

	Available-for-sale investment securities		***Held-to-maturity investment securities***		
	Government eurobonds	***Corporate bonds***	***Government eurobonds***	***Corporate bonds***	***Total***
Transferred financial asset	***2016***	***2016***	***2016***	***2016***	***2016***
Carrying amount of assets	17,883	80,575	–	–	**98,458**
Carrying amount of associated liabilities	(13,485)	(52,584)	–	–	**(66,069)**
Net position	**4,398**	**27,991**	–	–	**32,389**

	Available-for-sale investment securities		***Held-to-maturity investment securities***		
	Government bonds of member countries	***Corporate bonds***	***Government bonds of member countries***	***Corporate bonds***	***Total***
Transferred financial asset	***2015***	***2015***	***2015***	***2015***	***2015***
Carrying amount of assets	21,646	1,382	10,489	62,705	**96,222**
Carrying amount of associated liabilities	(16,350)	(930)	(6,998)	(40,478)	**(64,756)**
Net position	**5,296**	**452**	**3,491**	**22,227**	**31,466**

(Thousands of euros)

25. Transferred financial assets that are not derecognized (continued)

Securities sold under repurchase agreements are transferred to a third party and the Group receives cash in exchange. If the securities increase or decrease in value, the Group may, in certain circumstances, require, or be required, to pay additional collateral in the form of cash and/or other securities. The Group has determined that it retains substantially all the risks and rewards of these securities, which include credit risk, market risk, country risk and operational risk, and therefore has not derecognized them. In addition, it recognizes a financial liability for cash received.

The fair value of investment securities available for sale sold under repurchase agreements is equal to their carrying amount (Note 24).

The related liabilities, which are recorded against the cash received for such transactions, are presented in amounts due to banks and other financial institutions in the consolidated statement of financial position as at 31 December 2016 (as at 31 December 2015: in amounts due to banks and other financial institutions).

26. 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

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(Thousands of euros)

26. Segment information (continued)

Management monitors the operating results of its business units 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 consolidated financial statements. The following table presents revenue, income, assets and liabilities of the Group's operating segments:

2016	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	20,348	12,093	14	**32,455**
Net gains from trading in foreign currencies and operations with derivatives	–	9,068	–	**9,068**
Net gains from revaluation of derivative financial instruments	–	36,679	–	**36,679**
Net gains from available-for-sale investment securities	–	10,515	–	**10,515**
Net gains from held-to-maturity investment securities	–	616	–	**616**
Reversal of allowance for loan impairment	–	–	89	**89**
Income from lease of investment property	–	–	3,442	**3,442**
Reversal of allowance for impairment of other assets	–	–	67	**67**
Other segment income	241	–	430	**671**
Total income	**20,589**	**68,971**	**4,042**	**93,602**
Interest expenses	(11,250)	(16,401)	–	**(27,651)**
Net loss from revaluation of derivative financial instruments	–	(4,349)	–	**(4,349)**
Net losses from revaluation of assets and liabilities in foreign currencies	–	(31,119)	(54)	**(31,173)**
Net losses from revaluation of hedging instruments	–	(246)	–	**(246)**
Allowance for impairment of financial assets	(7,646)	–	–	**(7,646)**
Net losses from revaluation of investment property	–	–	(2,174)	**(2,174)**
Other segment expenses	(167)	(196)	(259)	**(622)**
Segment results	**1,526**	**16,660**	**1,555**	**19,741**
Other unallocated expenses				**(18,939)**
Profit for the period				**802**
Development Portfolio	363,403	68,349	–	**431,752**
Other segment assets	–	353,239	96,425	**449,691**
Total segment assets	**363,403**	**421,588**	**96,425**	**881,443**
Total segment liabilities	**160,065**	**325,579**	**5,581**	**491,225**
Other segment information				
Capital expenditures	–	–	1,065	**1,065**

The Group's management separates the "Development portfolio" assets allocated within operating segments. The criteria of separation is orientation of the assets on the fulfilling of the Group's mission. "Development Portfolio" includes loans to banks and loans to customers excluding impaired loan projects and the investments in debt securities purchased upon initial placement by the issuer..

(Thousands of euros)

26. Segment information (continued)

2015	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	15,080	11,904	148	**27,132**
Net gains from revaluation of assets and liabilities in foreign currencies	–	22,614	369	**22,983**
Net gains from available-for-sale investment securities	–	3,204	–	**3,204**
Net gains from held-to-maturity investment securities	–	45	–	**45**
Income from lease of investment property	–	–	5,214	**5,214**
Recovery of provision	–	–	89	**89**
Other segment income	460	–	79	**539**
Total income	**15,540**	**37,767**	**5,899**	**59,206**
Interest expenses	(7,260)	(10,484)	–	**(17,744)**
Net losses from trading in foreign currencies	–	(5,302)	(25)	**(5,327)**
Net losses from revaluation of derivative financial instruments	–	(6,661)	–	**(6,661)**
Net loss from trading in foreign currencies and operations with derivatives	–	(5,302)	–	**(5,302)**
Allowance for loan impairment	(6,166)	–	–	**(6,166)**
Net losses from revaluation of investment property	–	–	(2,500)	**(2,500)**
Other segment expenses	–	(114)	(1,755)	**(1,869)**
Segment results	**2,114**	**15,206**	**1,644**	**18,964**
Other unallocated expenses				**(16,908)**
Profit for the year				**2,056**
Development Portfolio	301,236	–	–	**301,236**
Other segment assets	5,103	400,201	102,863	**508,167**
Total segment assets	**306,339**	**400,201**	**102,863**	**809,403**
Total segment liabilities	**116,138**	**291,474**	**4,088**	**411,700**
Other segment information				
Capital expenditures	–	–	85	**85**

In 2016, the Group's revenue from lease operations with two external counterparties (2015: one external counterparty) exceeded 20% of the Group's total revenue (2016: EUR 2,160 thousand; 2015: EUR 3,196 thousand).

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 years ended 31 December 2016 and 31 December 2015 is presented in the table below:

	2016				*2015*			
	Russia	*Other member countries*	*Other countries*	*Total*	*Russia*	*Other member countries*	*Other countries*	*Total*
Interest income	7,760	16,095	8,600	**32,455**	12,147	11,721	3,264	**27,132**
Income from lease of investment property	3,442	–	–	**3,442**	5,214	–	–	**5,214**
Non-current assets	79,245	14,439	–	**93,684**	100,212	–	–	**100,212**

Non-current assets include property and equipment and investment property.

(Thousands of euros)

26. Segment information (continued)

Geographical information (continued)

The geographical concentration of the Group's assets and liabilities based on the location of the Group's counterparties as at 31 December 2016 is presented below:

	2016									
	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Hungary*	*Mongolia*	*Socialist Republic of Vietnam*	*Czech Republic*	*Other countries*	*Total*
Assets										
Cash and cash equivalents	16,398	808	26	38	–	–	–	–	75,761	**93,031**
Deposits with banks and other financial institutions	7,159	–	–	–	–	–	–	–	38,178	**45,337**
Derivative financial instruments	2,980	–	–	–	–	–	–	–	11,382	**14,362**
Available-for-sale investment securities	44,688	49,482	36,713	10,286	3,475	–	–	–	124,663	**269,307**
Long-term loans to banks and trade financing loans less allowances for impairment	27,378	–	–	–	–	47,970	19,019	–	–	**94,367**
Loans to customers less allowances for impairment	61,213	58,967	37,981	308	–	5,683	–	22,930	81,954	**269,036**
Other financial assets	1,407	8	–	1	–	–	–	–	4	**1,420**
Assets	**161,223**	**109,256**	**74,720**	**10,633**	**3,475**	**53,653**	**19,019**	**22,930**	**331,942**	**786,860**
Liabilities										
Due to banks and other financial institutions	–	–	–	7,508	–	–	–	–	111,417	**118,925**
Derivative financial instruments	4,528	–	633	–	–	–	–	–	6,462	**11,623**
Long-term loans of banks	9,840	21,690	–	–	7,380	–	–	–	34,439	**73,349**
Long-term securities issued	151,434	–	90,967	30,127	–	–	–	–	–	**272,528**
Other financial liabilities	1,805	–	–	19	–	–	–	–	39	**1,863**
Liabilities	**167,607**	**21,690**	**91,600**	**37,654**	**7,380**	**–**	**–**	**–**	**152,357**	**478,288**

(Thousands of euros)

26. Segment information (continued)

Geographical information (continued)

	2015									
	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Hungary*	*Mongolia*	*Socialist Republic of Vietnam*	*Czech Republic*	*Other countries*	*Total*
Assets										
Cash and cash equivalents	2,026	219	17	15	–	–	–	–	57,242	**59,519**
Deposits with banks and other financial institutions	6,049	–	–	–	–	30,539	–	–	63,804	**100,392**
Derivative financial instruments	669	–	–	–	–	–	–	–	1,175	**1,844**
Investment securities:										
- available-for-sale	–	26,889	31,150	13,208	12,056	13,746	11,506	6,118	1,386	**116,059**
- held-to-maturity	105,785	–	–	–	–	–	–	–	17,443	**123,228**
Long-term loans to banks less allowances for impairment	64,223	–	–	–	–	43,044	33,330	–	–	**140,597**
Loans to customers less allowances for impairment	28,160	51,162	25,844	20,437	–	21,890	–	–	18,249	**165,742**
Assets	**206,912**	**78,270**	**57,011**	**33,660**	**12,056**	**109,219**	**44,836**	**6,118**	**159,299**	**707,381**
Liabilities										
Due to banks and other financial institutions	992	–	–	7,508	–	–	–	20,086	84,787	**113,373**
Derivative financial instruments	18,723	–	864	–	–	–	–	–	10,311	**29,898**
Long-term loans of banks	22,953	13,740	–	7,494	–	–	–	–	–	**44,187**
Long-term securities issued	158,067	–	24,557	30,100	–	–	–	–	–	**212,724**
Liabilities	**200,735**	**13,740**	**25,421**	**45,102**	**–**	**–**	**–**	**20,086**	**95,098**	**400,182**

Other countries include non-member countries.

(Thousands of euros)

27. Offsetting of financial instruments

The table below shows the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the consolidated statement of financial position as at 31 December 2016:

2016	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position*		*Net amount*
				Financial instruments	*Cash collateral received*	
Financial assets						
Financial assets pledged under repurchase agreements	98,458	–	98,458	(66,069)	–	**32,389**
Total	**98,458**	**–**	**98,458**	**(66,069)**	**–**	**32,389**
Financial liabilities						
Repurchase agreements with banks	66,069	–	66,069	(66,069)	–	**–**
Total	**66,069**	**–**	**66,069**	**(66,069)**	**–**	**–**

The table below shows financial assets offset against financial liabilities in the consolidated statement of financial position, as at 31 December 2015 as well as the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the consolidated statement of financial position:

2015	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position*		*Net amount*
				Financial instruments	*Cash collateral received*	
Financial assets						
Financial assets pledged under repurchase agreements	96,222	–	96,222	(64,756)	–	**31,466**
Total	**96,222**	**–**	**96,222**	**(64,756)**	**–**	**31,466**
Financial liabilities						
Repurchase agreements with banks	64,756	–	64,756	(64,756)	–	**–**
Total	**64,756**	**–**	**64,756**	**(64,756)**	**–**	**–**

(Thousands of euros)

28. 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.

The volumes of related party transactions, outstanding balances at the year end, and related expenses and income for 2016 and 2015 are as follows:

		31 December 2016	***31 December 2015***
	Related party	***Carrying amount***	***Carrying amount***
Consolidated statement of financial position			
Current customer accounts	Key management personnel	1,783	1,897
Other non-financial liabilities	Key management personnel	416	493

		2016	***2015***
	Related party	***Income/ (expense)***	***Income/ (expense)***
Consolidated income statement			
Interest expenses on current customer accounts	Key management personnel	(61)	(95)
Net interest expenses after allowance for impairment of loans		**(61)**	**(95)**
Operating expenses		**(61)**	**(95)**
Employee benefits	Key management personnel	(1,365)	(1,524)
Compensation for travel expenses and medical insurance	Key management personnel	(55)	(89)
Operating expenses		**(1,420)**	**(1,613)**
Net (loss)/profit for the year		**(1,481)**	**(1,708)**

29. Capital adequacy

Capital adequacy ratio is the most important financial indicator characterizing credibility of credit institutions and is estimated as ratio of capital base to risk-weighted assets expressed as a percentage. Approval of the capital adequacy ratio is the sole power of the Bank's Council.

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 31 December 2016, this minimum level was 8% (2015: 8%).

Besides, taking into account the Bank's status as the multilateral development institution and the structure of the Bank's member countries and respective decision of the Council, the capital adequacy ratio was set for the Group at the level of not less than 25% as at 31 December 2016 (2015: 25%).

(Thousands of euros)

29. Capital adequacy (continued)

The following table shows the composition of the Group's capital position computed in accordance with the Basel Accord (Basel II) as at 31 December 2016 and 31 December 2015.

	2016	*2015*
Capital		
Tier 1 capital	378,034	365,978
Tier 2 capital	11,439	29,789
Total regulatory capital	**389,473**	**395,767**
Risk-weighted assets		
Credit risk	482,693	560,094
Market risk	186,588	70,461
Operational risk	57,999	55,548
Total risk-weighted assets	**727,280**	**686,103**
Total capital expressed as a percentage of risk-weighted assets, % ("capital adequacy ratio")	53.55%	57.68%
Total tier 1 capital expressed as a percentage of risk-weighted assets, % ("tier 1 capital adequacy ratio-")	51.98%	53.34%

(The end)

Independent auditor's report on the consolidated financial statements of the ***International Investment Bank and its subsidiary*** for 2017

February 2018

Independent auditor's report on the consolidated financial statements of the International Investment Bank and its subsidiary

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Independent auditor's report

To the Council of the International Investment Bank

Opinion

We have audited the consolidated financial statements of International Investment Bank (the "Bank") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2017 and its financial performance and its cash flows for 2017 in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

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We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How the relevant key audit matter was considered during our audit
Provisions for impairment of loans to banks and loans to customers	
The assessment of provisions for impairment of loans to banks and loans to customers is a key area of judgement for management of the Group. The identification of impairment and the determination of the recoverable amount are processes involving significant use of judgements, various assumptions and factors including the financial standing of borrowers and expected future cash flows. Information on the impairment of loans to banks and customers is included in Note 9, Loans to banks, Note 10, Loans to customers and Note 23, Risk management, to the consolidated financial statements. The use of different models and assumptions could produce significantly different estimates of impairment of loans to banks and customers. Due to materiality of the loans to banks and customers represented 61% of the total assets and significant use of professional judgement the assessment of provisions for impairment was the key audit matter.	Our audit strategy for the impairment of loans to banks and loans to customers was founded on substantive procedures. Our audit procedures included an evaluation of the methodology of the assessment of provisions, testing of inputs, evaluation of the assumptions used by the Group in the calculation of the impairment and the assessment of the adequacy of provisions for loans to banks and customers with individual signs of impairment. We analyzed expected future cash flows in respect of significant individually impaired loans to banks and customers. We have also fulfilled the procedures for information on provisions for impairment of loans to banks and customers disclosed in Notes 9, 10 and 23 to the Group's consolidated financial statements.

Other information included in the Group's Annual Report for 2017

Other information consists of the information included in the Annual Report of International Investment Bank for 2017 other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report of International Investment Bank for 2017 is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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Responsibilities of management and Council of the International Investment Bank for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Council of the International Investment Bank are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Council of the International Investment Bank regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Council of the International Investment Bank with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Council of the International Investment Bank, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is O.V. Youshenkov.

O.V. Youshenkov
Partner
Ernst & Young Vneshaudit LLC

15 February 2018

Details of the audited entity

Name: International Investment Bank
Bank operates on the basis of the Agreement on the Establishment of the International Investment Bank dated 10 July 1970, registered in the UN Secretariat on 1 December 1971 under No. 11417.
Address: Russia 107078, Moscow, Mashi Poryvaevoy str., 7.

Details of the auditor

Name: Ernst & Young Vneshaudit LLC
Record made in the State Register of Legal Entities on 4 February 2016, State Registration Number 1167746123478.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young Vneshaudit LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young Vneshaudit LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050953.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

(Thousands of euros)

	Note	31 December 2017	31 December 2016
Assets			
Cash and cash equivalents	5	66,097	93,031
Deposits with banks and other financial institutions	6	45,889	45,337
Derivative financial assets	7	7,761	14,362
Available-for-sale investment securities	8	138,704	170,849
Available-for-sale investment securities pledged under repurchase agreements	8	76,723	98,458
Loans to banks	9	201,635	94,367
Loans to customers	10	462,514	269,036
Investment property	11	21,853	21,840
Property, equipment and intangible assets	12	72,388	71,844
Other assets	13	2,476	2,319
Total assets		**1,096,040**	**881,443**
Liabilities			
Due to banks and other financial institutions	14	65,511	118,925
Derivative financial liabilities	7	15,073	11,623
Current customer accounts		8,593	9,218
Long-term loans of banks	15	95,592	73,349
Debt securities issued	16	509,213	272,528
Other liabilities	13	6,396	5,582
Total liabilities		**700,378**	**491,225**
Equity	17		
Subscribed capital		1,300,000	1,300,000
Callable capital		(985,038)	(986,947)
Paid-in capital		**314,962**	**313,053**
Revaluation reserve for available-for-sale investment securities		240	(1,506)
Revaluation reserve for property and equipment		13,748	12,945
Foreign currency translation reserve		(76)	(57)
Retained earnings less net income for the year		65,783	64,981
Net income for the year		1,005	802
Total equity		**395,662**	**390,218**
Total equity and liabilities		**1,096,040**	**881,443**

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

Nikolay Kosov Chairman of the Board

Elena Minduksheva Acting Deputy Director of the Finance Department

14 February 2018

The accompanying notes 1-30 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2017

(Thousands of euros)

	Note	*2017*	*2016*
Interest income	20	35,963	32,455
Interest expenses	20	(32,566)	(27,651)
Net interest income		**3,397**	**4,804**
Allowance for loan impairment	10, 11	(12,165)	(7,557)
Net interest expense after allowance for loan impairment		**(8,768)**	**(2,753)**
Fee and commission income		1,763	843
Fee and commission expense		(133)	(138)
Net fee and commission income		**1,630**	**705**
Net gains from operations in foreign currencies and with derivatives	21	15,949	9,979
Net gains from available-for-sale investment securities		7,399	10,515
Dividend income		123	–
Income from lease of investment property	19	4,034	3,442
Losses from revaluation of investment property	11	(26)	(2,174)
Other income		543	447
Net non-interest income		**28,022**	**22,209**
Operating income		**20,884**	**20,161**
Reversal of allowance for impairment of other assets	13	29	67
General and administrative expenses	22	(18,872)	(18,939)
Other operating expenses on banking operations		(1,036)	(487)
Operating expenses		**(19,879)**	**(19,359)**
Net income for the year		**1,005**	**802**

The accompanying notes 1-30 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

(Thousands of euros)

	Note	*2017*	*2016*
Net income for the year		**1,005**	**802**
Other comprehensive income			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods			
Change in unrealized revaluation of available-for-sale investment securities	17	1,746	158
Translation differences		(19)	63
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**1,727**	**221**
Other comprehensive income/(loss), not to be reclassified to profit or loss in subsequent periods			
Revaluation of property and equipment	12	803	(18,508)
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		**803**	**(18,508)**
Other comprehensive income/(loss)		**2,530**	**(18,287)**
Total income/(loss) for the year		**3,535**	**(17,485)**

The accompanying notes 1-30 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

(Thousands of euros)

	Subscribed capital	*Callable capital*	*Revaluation reserve for available-for-sale investment securities*	*Revaluation reserve for property and equipment*	*Foreign currency translation reserve*	*Retained earnings*	*Total equity*
At 31 December 2015	**1,300,000**	**(996,947)**	**(1,664)**	**31,453**	**(120)**	**64,981**	**397,703**
Profit for the year	–	–	–	–	–	802	**802**
Other comprehensive income/(loss) for the year	–	–	158	(18,508)	63	–	**(18,287)**
Total comprehensive income/(loss)	**–**	**–**	**158**	**(18,508)**	**63**	**802**	**(17,485)**
Contributions to capital (Note 18)	–	10,000	–	–	–	–	**10,000**
At 31 December 2016	**1,300,000**	**(986,947)**	**(1,506)**	**12,945**	**(57)**	**65,783**	**390,218**
Profit for the year	–	–	–	–	–	1,005	**1,005**
Other comprehensive income/(loss) for the year	–	–	1,746	803	(19)	–	**2,530**
Total comprehensive income/(loss)	**–**	**–**	**1,746**	**803**	**(19)**	**1,005**	**3,535**
Contributions to capital (Note 18)	–	1,909	–	–	–	–	**1,909**
At 31 December 2017	**1,300,000**	**(985,038)**	**240**	**13,748**	**(76)**	**66,788**	**395,662**

The accompanying notes 1-30 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

(Thousands of euros)

	Note	2017	2016
Cash flows from operating activities			
Interest, fees and commissions received		28,578	24,092
Interest, fees and commissions paid		(3,327)	(3,364)
Realized gains less losses from dealing in foreign currencies and operations with derivatives		31,228	9,079
Cash flows from lease of investment property		4,034	3,442
General and administrative expenses		(15,638)	(16,094)
Other operating income/(expenses) on banking operations		36	(78)
Cash flows from operating activities before changes in operating assets and liabilities		**44,911**	**17,077**
Net (increase)/decrease in operating assets			
Deposits with banks and other financial institutions		(5,776)	54,498
Loans to banks		(118,882)	47,598
Loans to customers		(210,605)	(118,231)
Other assets		(15)	(5)
Net increase/(decrease) in operating liabilities			
Due to banks and other financial institutions		(47,426)	1,589
Current customer accounts		(1,227)	1,481
Other liabilities		1,016	68
Net cash flows from operating activities		**(338,004)**	**4,075**
Cash flows from investing activities			
Interest received		6,491	11,458
Purchase of available-for-sale investment securities		(426,482)	(668,584)
Proceeds from sale and redemption of available-for-sale investment securities		478,424	618,419
Proceeds from sale and redemption of held-to-maturity investment securities		–	30,373
Investments in investment property		(39)	(50)
Acquisition of property, equipment and intangible assets		(1,673)	(1,754)
Net cash flows from investing activities		**56,721**	**(10,138)**
Cash flows from financing activities			
Interest paid		(26,212)	(26,324)
Long-term interbank financing raised	29	36,185	60,000
Long-term interbank financing repaid	29	(13,451)	(29,569)
Placement of bonds	29	348,661	67,398
Redemption of bonds	29	(88,290)	(43,910)
Contributions to capital		1,909	10,000
Net cash flows from financing activities		**258,802**	**37,595**
Effect of exchange rate changes on cash and cash equivalents		(4,453)	1,980
Net increase/(decrease) in cash and cash equivalents		**(26,934)**	**33,512**
Cash and cash equivalents, beginning		93,031	59,519
Cash and cash equivalents, ending	5	**66,097**	**93,031**

The accompanying notes 1-30 are an integral part of these consolidated financial statements.

(Thousands of euros)

1. Principal activities

These 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 on the Establishment of the International Investment Bank (the “Agreement”) and the Statute. The Agreement was ratified by the member countries of the Bank and registered with the Secretariat of the United Nations in December 1971. 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 Council of the Bank. The Group also performs transactions with securities and foreign currency. The Group operates from its office at 7 Mashi Poryvaevoy St., Moscow, Russia, and the European regional office in Bratislava (Eurovea Central 1, Pribinova 4, Bratislava, 81109, Slovak Republic).

The Group had an average of 220 staff employees during 2017 (2016: 230).

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, the IIB is directly excluded from the list of financial institutions to which restrictions apply.

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

- The Banks winds up the introduction of changes to its constituent documents and implementation of the three-level corporate governance structure. The Protocol on Introducing Changes to the Agreement on the Establishment of the International Investment Bank and the Statutes (hereinafter, the “Protocol”) signed at the end of 2015 is at the stage of ratification (internal state procedures) by member countries of the Bank. The Protocol will enter into force upon completion of those ratification procedures. As at the end of 2017, the Protocol was ratified by Hungary, the Socialist Republic of Vietnam, Romania, the Republic of Bulgaria, the Russian Federation, the Republic of Cuba, the Czech Republic and Mongolia (8 member countries out of 9).
- In March 2017, IIB granted observer status to the Republic of Belarus, a sovereign state, for the first time.
- At the 107th meeting of the Bank’s Council (Bucharest, Romania, June 2017), member countries unanimously approved the Group’s mid-term development strategy for 2018-2022.
- Taking into account the Group’s new development strategy for 2018-2022 approved by the member countries of the IIB, the Government of Mongolia decided to increase its interest in the paid-in portion of the share capital of the Bank to 1.077%. On 27 December 2017, Mongolia made an additional contribution exceeding EUR 1.9 million.
- In December 2017, the international rating agency Fitch Ratings upgraded its outlook on the Bank’s credit rating from stable to positive and confirmed its issuer credit rating and debt rating at BBB. Previously, in May 2017, Moody’s Investors Service also upgraded its outlook on the Bank’s credit rating from stable to positive and confirmed its issuer credit rating and debt rating at Baa1. Also, the Bank is assigned the following investment grade ratings: BBB (stable outlook) by Standard&Poor’s and A (stable outlook) by Dagong Global Credit Rating.
- In April 2017, the Group entered capital markets in Western Europe for the first time, with a debut issue of SSD debentures (Schuldscheindarlehen) − a traditional loan instrument of the German market.
- In September 2017, the Bank placed EUR- and RON-denominated bonds totaling EUR 125 million on the Romanian stock market. This became the first issue of debt instruments denominated in euro on the Romanian market. As a result, the Romanian Stockbrokers’ Association awarded the International Investment Bank for its support of the development of the national stock market in the *Contribution to the Development of the Romanian Corporate Bonds Market* category.
- In 2017, the Bank’s trade financing program was recognized the best among other international financial institutions’ programs by the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), and the Bank was the winner of ADFIAP Awards 2017 in the *Trade Development* category.

  At the 107th meeting of the Bank’s Council (Bucharest, Romania), the Bank and the chambers of commerce and industry (the “CCIs”) of the member countries signed a multilateral Memorandum on Cooperation.

(Thousands of euros)

1. Principal activities (continued)

Member countries of the Bank

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

Member countries	*2017, %*	*2016, %*
Russian Federation	47.633	47.923
Republic of Bulgaria	13.399	13.481
Hungary	12.700	12.777
Czech Republic	9.644	9.703
Slovak Republic	6.820	6.862
Romania	5.859	5.895
Republic of Cuba	1.702	1.713
Socialist Republic of Vietnam	1.165	1.172
Mongolia	1.077	0.474
	100.000	**100.000**

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

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

The Group 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 Group performs its operations with reference to the regional features of its member countries to ensure overall assessment and control of credit and operational risks.

The accompanying 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 consolidated financial statements.

2. Basis of preparation

General

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") approved by the International Accounting Standards Board.

Subsidiary

As at 31 December 2017, the Bank is a 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 31 December 2017, the authorized capital of the subsidiary is RUB 44.5 thousand (31 December 2016: RUB 44.5 thousand), which is equivalent to EUR 1.1 thousand at the historical exchange rate at the date of establishment.

Basis of measurement

These 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, available-for-sale financial instruments also stated at fair value, and buildings in the property, equipment and investment property stated at revalued amounts.

2. Basis of preparation (continued)

Preparation and presentation of financial statements

The financial year of the Group begins on 1 January and ends on 31 December.

Functional and presentation currency

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 consolidated financial statements are presented in thousands of euros ("thousands of euros" or "EUR thousand"), unless otherwise indicated.

3. Summary of accounting policies

Changes in accounting policies

The Group has adopted the following amended IFRS which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each new amendment are described below:

Amendments to IAS 7 Statement of Cash Flows − Disclosure Initiative

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group disclosed relevant information for both the current period and the comparative period in Note 29.

Amendments to IAS 12 Income Taxes − Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. These amendments had no effect on the Group's financial position and performance, since the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Amendments to IFRS 12 Disclosure of Interests in Other Entities − Clarification of the scope of the disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12 are applicable to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. These amendments had no impact on the Group's financial position or performance.

Foreign currency transactions

The consolidated financial statements are presented in euro, which is the Group's functional and presentation currency. Every currency except euro is considered foreign currency. Transactions in foreign currencies are initially translated in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated income statement as "Net gains from operations in foreign currencies and with derivatives". Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Group's exchange rate on the date of the transaction are included in "Net gains from operations in foreign currencies and with derivatives".

(Thousands of euros)

3. Summary of accounting policies (continued)

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses of the subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights (interest), or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognized at cost, including goodwill. Subsequent changes in the carrying amount reflect the post-acquisition changes in the net assets of the associate attributable to the Group. The Group's share of its associates' profits or losses is recognized in the consolidated income statement, and its share of movements in reserves is recognized in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealized gains on transactions between Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and amounts due from banks and other financial institutions, including reverse repurchase agreements, which mature within ninety days from the origination date and are free from contractual encumbrances.

Fair value measurement

The Group measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 24.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

(Thousands of euros)

3. Summary of accounting policies (continued)

Fair value measurement (continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 − valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 − valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognized in profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in profit or loss when the investments are impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available for sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

3. Summary of accounting policies (continued)

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses from change in fair value being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognized in profit or loss.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- A financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity.
- Other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gains or losses already recognized in profit or loss are not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repo") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and in case the transferee has the right by contract or custom to sell or repledge them, reclassified as investment securities pledged under sale and repurchase agreements.

The corresponding liabilities are presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as cash equivalents, deposits with banks and other financial institutions as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest rate method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the consolidated income statement. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards and swaps in the foreign exchange market. Such financial instruments are held for trading and are initially recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as "Net gains from operations in foreign currencies and with derivatives".

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value on the trading portfolio with changes in fair value recognized in profit or loss.

(Thousands of euros)

3. Summary of accounting policies (continued)

Hedge accounting

To manage the risks associated with fluctuations in cash flows from receipt and payment of interest, as well as with fluctuations in the fair value of certain items, the Group uses derivative financial instruments. As a result, the Group applies hedge accounting for transactions that meet specified criteria.

At the inception of the hedge relationship, the Group documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at the inception and on an ongoing basis.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was highly effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken both at inception and at each month end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated will be offset by the hedging instrument in a range of 80% to 125%.

Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognized in the consolidated income statement in "Net gains from operations in foreign currencies and with derivatives".

Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as an adjustment of the carrying value of the hedged item in the consolidated income statement in "Net gains from operations in foreign currencies and with derivatives".

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortized cost, using the effective interest rate method, when the hedge ceases, the adjustment of the carrying amount of the hedged financial instrument is amortized over the remaining period until date of maturity of the hedged financial instrument. If the hedged item is derecognized, the unamortized fair value adjustment is recognized in profit or loss.

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognized in consolidated other comprehensive income and is recorded through other comprehensive income. An ineffective portion of the gain or loss on the hedging instrument is recognized in the consolidated income statement.

When a hedging instrument expires, is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, the total amount of income or expense accumulated at that time in equity is transferred from equity and recognized in the consolidated income statement in the same period or periods during which hedged projected cash flows affect profit or loss.

When a forecast transaction is no longer expected, the cumulative gain or loss recognized in equity is immediately transferred to the consolidated income statement.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to banks and other financial institutions, long-term loans of banks and debt securities issued. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the borrowings are derecognized as well as through the amortization process.

(Thousands of euros)

3. Summary of accounting policies (continued)

Leases

Operating − Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into general and administrative expenses.

Operating − Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset.

Lease income from operating leases is recognized in the consolidated income statement over the lease term within net non-interest income on "Income from lease of investment property". The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Measurement of financial instruments at initial recognition

When financial instruments are recognized initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, then:

- If the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Group recognizes the difference between the fair value at initial recognition and the transaction price as a gain or loss.
- In all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognizes that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that may be related to defaults.

(Thousands of euros)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Deposits with banks and other financial institutions, long-term loans to banks, trade financing loans, and loans to customers

For deposits with banks and other financial institutions, long-term loans to banks, trade financing loans, and loans to customers carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss exists, the amount of the loss is measured as the difference between the assets' value in the consolidated statement of financial position and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The value of the asset in the consolidated statement of financial position is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount of asset based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If amounts previously written off are later recovered, the recovery is credited to the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a financial asset is provided at a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses incurred by the Group and their magnitude).

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying value and the present value of estimated future cash flows.

The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the consolidated income statement.

(Thousands of euros)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Available-for-sale financial instruments

For available-for-sale financial instruments, the Group determines at each reporting date whether there is objective evidence that an instrument or a group of instruments is impaired.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its acquisition cost. Where there is evidence of impairment, the cumulative loss − measured as the difference between the acquisition coast and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement − is reclassified from other comprehensive income to the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognized in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed through the consolidated income statements.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. The accounting treatment of such restructuring is as follows:

- ► If the currency of the loan has been changed, the old loan is derecognized and the new loan is recognized in the consolidated statement of financial position.
- ► If the loan restructuring is not caused by the financial difficulties of the borrower, the Group uses the same approach as for financial liabilities described below.
- ► If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period.

Once the terms have been renegotiated, the loan is no longer considered past due. The Group's management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in the consolidated statement of financial position where:

- ► The rights to receive cash flows from the asset have expired.
- ► The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement.
- ► The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(Thousands of euros)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value, in "Other liabilities", being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of profit or loss. The premium received is recognized in profit or loss on a straight-line basis over the life of the guarantee.

Property and equipment

Property and equipment are carried in the consolidated financial statements at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment, excluding buildings carried at revalued cost, as described below. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying amount of property and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations of buildings are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is carried in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the consolidated income statement, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

3. Summary of accounting policies (continued)

Property and equipment (continued)

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of property and equipment (including self-constructed property and equipment) begins when it is available for use and is recognized in the consolidated income statement. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	85
Equipment	3-7
Computers	3-6
Office furniture	5-10
Motor vehicles	4

The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses, unless they qualify for capitalization.

Investment property

Investment property includes a part of buildings held to earn rental income or for capital appreciation and which are not used by the Group or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the basis of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in the consolidated income statement within "Income from lease of investment property". Gains and losses resulting from changes in the fair value of investment property are recorded in the consolidated income statement and presented within gains/(losses) from revaluation of investment property.

Subsequent expenditure is subject to capitalization only when it is probable that future economic benefits associated with an asset will flow to the Group and it can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to buildings, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Intangible assets

The useful lives of intangible assets are assessed to be finite and include capitalized computer software. Intangible assets that have been acquired and recorded are capitalized based on costs incurred to acquire and bring to use these intangible assets. Following initial recognition, intangible assets are carried at acquisition cost less any accumulated amortization and any accumulated impairment losses. Intangible assets are amortized using the straight-line method and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Automated banking system	20
Other computer software	1-5

(Thousands of euros)

3. Summary of accounting policies (continued)

Assets classified as held for sale

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

The sale qualifies as highly probable if the Group's management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

The Group measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

The Group recognizes an impairment loss for any initial or subsequent write-down of the asset to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Equity

In accordance with amendments to IAS 32, *Financial Instruments: Presentation*, and IAS 1, *Presentation of Financial Statements − Puttable Financial Instruments and Obligations Arising on Liquidation*, that were issued in February 2008, participants' shares are recognized in equity and not in liabilities.

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed in the consolidated financial statements when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized in the consolidated financial statements.

Interest and similar income and expense

For all financial instruments measured at amortized cost and interest bearing securities classified as trading or available for sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

(Thousands of euros)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. Loan commitment fees for loans that are likely to be drawn down and other credit-related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

Other fee and commission income

Fees earned for the provision of transaction services are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Fee and commission expense

Fee and commission expenses comprise commissions on securities transactions and commissions on cash settlement transactions. Commissions paid on purchase of securities classified as financial instruments at fair value through profit or loss are recognized in the consolidated income statement at the purchase date. Commissions paid on all other purchases of securities are recognized as an adjustment to the carrying amount of the instrument with corresponding adjustment to its effective yield.

Dividend income

Dividend income is recognized when the Group's right to receive the payment is established.

Fiduciary assets

Fiduciary assets are not reported in the consolidated financial statements, as they are not owned by the Group.

Segment reporting

The reportable segments of the Group comprise the following operating segments: Credit and investment activity, Treasury, Other operations.

Standards issued but not yet effective

The standards and interpretations issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards when they become effective.

Standards issued but not yet effective

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IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which supersedes IAS 39 *Financial Instruments: Recognition and Measurement*. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Except for hedge accounting, retrospective application is required, but recalculation of comparative information is not compulsory, except for hedge accounting.

(Thousands of euros)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

The Group plans to adopt the new standard and recognize the cumulative effect of transition in retained earnings as at 1 January 2018. The comparative information will not be restated. Based on data as at 31 December 2017 and the current adoption status, the Group is currently assessing, in quantitative terms, the impact of IFRS 9 adoption; however, the assessment has not been finalized yet.

The Group has developed a plan for the phase-by-phase transition to IFRS 9. The working group for the transition to the new standard comprises experts on methodology, data search and modeling, information technology and financial statements. The group was engaged in the assessment of financial instruments affected by classification and measurements requirements of IFRS 9, as well as in the development of the methodology to provide for expected credit losses.

(a) Classification and measurement

Pursuant to IFRS 9, all debt financial assets that do not meet the Solely Payments of Principal and Interest (SPPI) criterion are classified at initial recognition as financial assets at fair value through profit or loss (FVPL). According to this criterion, debt instruments that do not meet the definition of basic credit agreement (such as instruments with embedded conversion options or non-recourse loans) are measured at FVPL. Those debt financial instruments that meet the SPPI criterion are classified at initial recognition based on a business model for managing these instruments:

- Instruments held to receive the contractual cash flows are at amortized cost.
- Instruments held to receive the contractual cash flows and for sale are classified as at fair value through other comprehensive income (FVOCI).
- Instruments held for other purposes are classified as at FVPL.

Equity financial assets are to be classified at initial recognition as at FVPL, except when the entity decided to irrevocably designate such assets as at FVOCI. For equity financial instruments classified as at FVOCI, all realized and unrealized gains or losses (except for dividend income) are recognized in other comprehensive income, with no subsequent reclassification to profit or loss.

The classification and measurement of financial liabilities remain almost unchanged from the existing requirements of IAS 39. Derivative financial instruments continue to be measured at FVPL.

The Group does not expect any significant changes in classification and measurement of financial instruments recorded on its consolidated statement of financial position.

(b) Impairment

IFRS 9 sets requirements for assessing expected credit losses and providing for financial assets measured at amortized cost and at fair value through other comprehensive income, including loans, trade and lease receivables, debt securities, contractual assets per IFRS 15, as well as off-balance credit-related commitments (hereinafter, the "financial instruments").

Key changes in the approach to assessing provisions for expected credit losses in IFRS 9:

- Expected credit losses are assessed for all financial instruments, including assets without any indications of impairment and/or deterioration of credit quality; provision is required from the date of acquisition of a financial instruments exposed to credit risk, which result in higher provisions.
- A more complex provisioning methodology was introduced. A provisioning model is to be developed using the following parameters: probability of default (PD) within 12 months and for the whole term of the financial instrument, loss given default (LGD), macroeconomic indicators.

The assessment of impairment losses is based on expected losses (IFRS 9) rather than on incurred losses (IAS 39). According to the new assessment model, an allowance should be created at initial recognition of a financial instrument (or at the date when the Group becomes a party to a loan agreement or a financial guarantee) based on expected potential credit losses.

(Thousands of euros)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Pursuant to IFRS 9, for financial instruments, either occurred or acquired, the Group will recognize an allowance for impairment in the amount of expected credit losses for 12 months, if there has been no significant increase in credit risk since origination (phase 1). This amount represents expected credit losses as a result of a default that may take place within the next 12 months. Interest income is calculated based on the gross carrying amount of a financial instrument at phase 1.

According to IFRS 9, credit losses shall be recognized over the remaining useful lives of financial instruments ("expected losses over the useful life") that are considered to have a significantly increased credit risk exposure (phase 2), as well as for financial assets impaired at the reporting date (phase 3).

Expected losses for financial instruments are all possible events of default that may occur over the expected useful life of a financial instrument. The Group uses current risk management measures, changes in credit rating and relevant reasonable information to determine whether there is a significant increase in credit risk of a financial instrument. This includes considering prospective information, including macroeconomic factors. In addition, financial instruments will be transferred at phase 2, if they are 30 days overdue. Interest income is calculated based on the gross carrying amount of a financial instruments at phase 2.

IFRS 9 does not require separating individually significant financial instruments / borrowers in assessing expected credit losses and using a separate approach to such instruments/borrowers. Interest income is calculated only based on net carrying amount of these financial instruments at phase 3.

The Group decided to assess the provision for credit losses on an individual basis at phase 3. There is a number of criteria the Group analyses at transitions between phases 1, 2 and 3. At the same time, it analyses, on an individual basis, all factors that may provide evidences of changes in credit risk or impairment.

In order to assess expected credit losses, the Bank uses three basic components: the probability of default (PD) (point in time and lifetime), loss given default (LGD), macroeconomic indicators.

For the purpose of IFRS 9, provisions for credit losses are affected by such key characteristics as exposure at default (EAD), expected useful life of a financial asset, etc. As a result, the provision for credit losses for phase 2 financial instruments will be increased along with the expected useful life of a financial instrument.

According to estimates, IFRS 9 will result in higher provisions to cover credit losses, as mentioned above. This increase is a result of the requirement to fix a provision in the amount of expected credit losses for 12 months for instruments with no significant increase in credit risk since origination, and a larger number of financial instruments to which expected losses are applied over their useful lives.

(c) Changes in hedge accounting

IFRS 9 sets new hedge accounting rules that will align hedge accounting with risk management approach. The standard eliminated certain restrictions, so more instruments can qualify as hedging instruments for hedge accounting purposes.

Key changes: Modified approach to hedge effectiveness testing, risk component designated as the hedged item, hedging cannot be derecognized when the hedging purpose remains unchanged.

IFRS 9 provides possibility to postpone implementation of the standard in relation to hedge accounting and continue to apply IAS 39 requirements. The Group decided not to implement IFRS 9 in relation to hedge accounting at the date of IFRS 9 became effective.

(Thousands of euros)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and amended in April 2016. The new standard will supersede all existing revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application will be required for annual periods beginning on or after 1 January 2018. The Group plans to adopt the new standard using the modified retrospective approach and recognize the cumulative effect of transition in retained earnings as at 1 January 2018. The comparative information will not be restated.

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9 and IFRS 16 *Leases*). As a result, this standard will have no impact on a significant portion of the Group's revenue.

The Group does not expect a significant impact of IFRS 15.

Amendments to IFRS 10 and IAS 28 − Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or a joint venture. The amendments clarify that gains or losses arising as a result of the sale or contribution of assets that constitute a business, as defined in IFRS 3, in a transaction between an investor and its associate or joint venture are recognized in full. However, gains or losses arising as a result of the sale or contribution of assets that do not constitute a business are recognized only to the extent of interests of investors, other than the entity, in an associate or a joint venture. The IASB has deferred the effective date of these amendments for an indefinite term, but an entity that early adopts the amendments must apply them prospectively. The Group does not expect any significant effect from these amendments.

Amendments to IFRS 2 − Classification and Measurement of Share-based Payments

The IASB issued amendments to IFRS 2 *Share-based Payments*, which cover the following three aspects: the effects of vesting conditions on the measurement of a cash-settled share-based payment; classification of share-based payments with settlement of the tax at source on a net basis; accounting for amended terms of share-based payments resulting in cease of classification as a cash-settled transaction and start of classification as equity-settled transaction.

When adopting the amendments, entities do not have to restate data for the prior periods, however retrospective application is possible if the entity applies all three aspects and if other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group does not expect any significant effect from these amendments.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and replaces IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases − Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases, and requires that lessees account for all lease agreements using a single lessee accounting model, i.e. similarly to the accounting for finance leases in IAS 17. The standard provides for two types of disclosure exemptions for lessees: for leases of 'low-value' assets and 'short-term' leases (e.g. leases expiring in 12 months or less). At the inception of the lease, the lessee will recognize a liability to make lease payments (i.e. a lease liability) and an asset granting the right to use an underlying asset over the lease term (i.e. a right-of-use asset). The lessees will recognize the interest expense related to the lease liability separately from the amortization expense related to the right-of-use asset.

The lessees will also remeasure the lease liability on occurrence of a certain event (e.g. a change in lease terms or future lease payments resulting from a change in the index or rate used to determine those payments). In most cases, a lessee will account for the amount of the remeasured lease liability as an adjustment to the right-of-use asset.

(Thousands of euros)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

The accounting treatment for the lessor under IFRS 16 remains almost unchanged from the existing requirements of IAS 17. Lessors will continue to classify leases as operating or finance leases using the same classification principles as in IAS 17.

In addition, IFRS 16 requires that lessors and lessees provide a more detailed disclosures as compared with IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before the date on which the entity begins to apply IFRS 15. A lessee may apply this standard using either a full or modified retrospective approach. The transitional provisions of the standard contain certain exemptions. In 2018, the Group will continue to assess the potential impact of IFRS 16 on its consolidated financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, a new comprehensive financial reporting standard related to insurance contracts, which addresses the issues of recognition, measurement, information presentation and disclosures.

When IFRS 17 is effective, it will replace IFRS 4 *Insurance Contracts*, which was issued in 2005. IFRS 17 applies to all insurance contracts (i.e., life insurance and insurance other than life insurance, direct insurance and reinsurance) regardless of the type of entity that issues them, as well as to certain guarantees and financial instruments with discretionary participation conditions.

There are several scope exceptions. The main objective of IFRS 17 is to provide a recognition model for insurance contracts, which is more effective and consistent for insurers. Unlike requirements of IFRS 4, which are based mostly on previous local accounting policies, IFRS 17 provides a comprehensive recognition model for insurance contracts covering all the relevant accounting considerations.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021. In addition, comparative information shall be provided. Earlier application is permitted on condition that the entity also applies IFRS 9 and IFRS 15. The Group does not expect that IFRS 15 will have a significant effect on the consolidated financial statements.

Amendments to IAS 40 − Transfers of Investment Property

Amendments clarify the cases when an entity is required to transfer real estate, including real estate under construction or development, into or from the category of investment property. The amendments state that a change in use occurs when property begins or ceases to comply with the definition of investment property and there is evidence of a change in use. Any change in management's intentions regarding the use of the property itself does not indicate a change in its use. Entities should apply these amendments prospectively with respect to changes in use, which occurred on or after the beginning of the annual reporting period, in which the entity applies these amendments for the first time, or after that date. The entity shall re-assess the classification of real estate held at that date and, if necessary, transfer real estate to reflect conditions that exist at that date. Retrospective application is permitted according to IAS 8 only if it is possible without more recent information. The amendments are effective for annual periods beginning on or after 1 January 2018. The Group does not expect any significant effect from these amendments.

Annual improvements 2014-2016 cycle (issued in December 2016)

They include:

IFRS 1 First-time Adoption of International Financial Reporting Standards − Elimination of Short-Term Exemptions for First-Time Adopters

Short-term exemptions stipulated by paragraphs E3-E7 of IFRS 1 were deleted since they had served their purpose. These amendments are effective from 1 January 2018. These amendments are not applicable to the Group.

(Thousands of euros)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IAS 28 Investments in Associates and Joint Ventures − Clarification that the Decision to Measure Investees at Fair Value through Profit or Loss Should Be Made Individually for Each Investment

The amendments clarify:

An entity that is a venture capital organization, or other similar entity may decide to measure investments in associates and joint ventures at fair value through profit or loss. This decision is made individually for each investment.

If the entity that is not an investment entity itself has an interest in an associate or joint venture that are investment entities, when applying the equity method, such entity can retain the fair value measurement applied by its investment associate or joint venture to its interests in subsidiaries. This decision is made individually for each investment associate or joint venture at the later of: (a) the date of initial recognition of an investment associate or joint venture; (b) the date when an associate or joint venture becomes an investment entity and (c) the date when an investment associate or joint venture first becomes a parent.

These amendments are applied retrospectively and are effective from 1 January 2018. The Group does not expect any significant effect from these amendments.

Amendments to IFRS 4 − Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

These amendments eliminate concerns arising from implementing the new standard related to financial instruments, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments grant two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated at the entity's discretion on transition to IFRS 9. In addition, the entity restates comparative information to reflect the overlay application approach if, and only if, it restates comparative data while applying IFRS 9. These amendments are not applicable to the Group.

IFRIC 22 − Foreign Currency Transactions and Prepayment

It clarifies that for the purpose of determining exchange rate to be applied at initial recognition of the respective assets, expenses or revenues (or their part) at derecognition of a non-monetary asset or non-monetary liability related to making or receiving prepayment, the date of transaction should be considered the date when an entity initially recognizes non-monetary asset or non-monetary liability related to making or receiving prepayment. The clarification become effective for annual reporting periods beginning on or after 1 January 2018. However, since the current activities of the Group comply with the requirements of the clarification, the Group does not expect that it will have any impact on its consolidated financial statements.

IFRIC 23 − Uncertainty over Income Tax Treatments

The clarification addresses the treatment of income tax when there is uncertainty over tax interpretations, which affects the application of IAS 12. The clarification does not apply to taxes or fees that are not within the scope of IAS 12, nor does it contain specific requirements for interest and penalties related to uncertain tax interpretations.

The entity should decide whether to consider each uncertain tax interpretation separately or together with one or several other uncertain tax interpretations. It is necessary to use an approach that will allow predicting results of resolving uncertainty more accurately. The clarification also covers assumptions made to review interpretations of tax authorities and changes in facts and circumstances.

The clarification become effective for annual reporting periods beginning on or after 1 January 2019. The Bank is not subject to taxation, therefore application of these amendments has no effect on the Group's financial position and performance.

(Thousands of euros)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Annual improvements 2015-2017 cycle (issued in December 2017)

These improvements are applied for annual reporting periods beginning on or after 1 January 2019 and include:

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements − previously held interest in a joint operation

- These amendments clarify whether the previously held interest in a joint operation (that is a business as defined in IFRS 3) should be remeasured to fair value, when:A party to a joint operation obtains control over the joint operation (IFRS 3);
- A party that participates in (but does not have joint control over a joint operation) obtains joint control over the joint operation (IFRS 11).

The Group does not expect any effect on its consolidated financial statements.

IAS 12 Income Taxes − income tax consequences of payments on financial instruments classified as equity

These amendments clarify that an entity must recognise all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend. Earlier application is permitted and must be disclosed. The amendments must first be applied to income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with the amendments, the Group does not expect any effect on its consolidated financial statements.

IAS 23 Borrowing Costs − borrowing costs eligible for capitalization

These amendments clarify that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally. Earlier application is permitted and should be disclosed. The Group does not expect any effect on its consolidated financial statements.

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 consolidated financial statements, which have the most significant effect on the amounts recognized in the consolidated financial statements and the carrying amount of assets and liabilities in the following financial year. Estimates and assumptions are continuously assessed and are based on the management experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant uses of judgments and estimates are as follows:

Allowance for impairment of loans and other financial assets carried at amortized cost

Financial assets are recorded in the Group's consolidated statement of financial position less allowances for impairment. The Group regularly reviews its financial assets to assess impairment. When assessing impairment losses, the Group uses its professional judgment in relation to objective evidences that future contractual cash flows on financial asset shall decrease. These evidences may include information on financial difficulties of the borrower or other observable data on adverse changes in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. The Group uses its professional judgment to adjust observable data for financial assets to reflect current circumstances. Impairment loss may be reversed only if a subsequent increase of estimated contractual cash flows can be objectively related to an event occurring after the impairment loss was recognized.

(Thousands of euros)

4. Significant accounting judgments and estimates (continued)

Assumptions and estimation uncertainty (continued)

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 24.

Impairment of available-for-sale equity securities

The Group determines that available-for-sale equity investment securities are impaired when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates, among other factors, the volatility of share prices. In addition, impairment may take place when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operating or financing cash flows.

Fair value of the buildings classified to "property and equipment" and "investment property"

As disclosed in Note 3, the Group applies the fair value model with regard to investment property. Buildings included in fixed assets are stated at revalued amount.

As for buildings within property and equipment, the Group monitors the compliance of the present value of buildings with their fair value and performs revaluation to ensure that there are no significant differences. Changes in the fair value are recognized in other comprehensive income. The most recent revaluation of the Group's building were carried out as at 31 October 2017 by an independent companies of professional appraisers applying an appropriate valuation methodology and information on transactions with similar real estate objects on the local market. However, valuation results based on the above valuation technique may differ from the prices of actual transactions in the real estate market.

Management believes that during the period from the valuation date to the date of consolidated financial statements there were no significant changes in economy and technical parameters of the building that could affect its revalued cost. Starting from 31 October 2017, the revalued building is depreciated in accordance with the remaining useful life.

As for investment property, the Group monitors changes in its fair value at each reporting date to ensure that the present value of investment property does not differ materially from its fair value. Changes in the fair value of investment property are recognized in the consolidated income statement. The most recent revaluation of the Group's investment properties were carried out as at 31 October 2017 by an independent company of professional appraisers applying an appropriate valuation methodology and information on transactions with similar real estate objects on the local market. However, valuation results based on the above valuation technique may differ from the prices of actual transactions in the real estate market. Management believes that during the period from the valuation date to the date of consolidated financial statements there were no significant changes in economy and technical parameters of the investment properties that could affect its revalued cost.

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 − Available-for-sale investment securities;
- Note 9 − Loans to banks;
- Note 10 − Loans to customers;
- Note 11 − Investment property;
- Note 12 − Property, equipment and intangible assets;
- Note 18 − Commitments and contingencies.

(Thousands of euros)

4. Significant accounting judgments and estimates (continued)

Reclassification of comparative information

The Group changed the presentation of line items in the consolidated income statement for the year ended 31 December 2016. The following adjustments were made to the data for 2016 to conform to the presentation of data for 2017:

Article of the consolidated income statement	*In accordance with the previously issued report*	*Reclassification amount*	*After reclassification*
Net gains from revaluation of derivative financial instruments	32,330	(32,330)	–
Net losses from fair value hedge operations	(246)	246	–
Net gains from dealing in foreign currencies and operations with derivatives	9,068	(9,068)	–
Net losses from revaluation of assets and liabilities in foreign currencies	(31,173)	31,173	–
Net gains from operations in foreign currencies and with derivatives	–	9,979	9,979

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2017	*2016*
Cash on hand	**85**	**104**
Nostro accounts with banks and other financial institutions		
Credit rating from A- to A+	49,120	62,548
Credit rating from BBB- to BBB+	4,167	4,526
Credit rating from BB- to BB+	274	551
Total nostro accounts with banks and other financial institutions	**53,561**	**67,625**
Short-term deposits with banks		
Term deposits with banks		
Credit rating BBB-	68	–
Credit rating from BB- to BB+	12,383	25,302
Total short-term deposits with banks	**12,451**	**25,302**
Cash and cash equivalents	**66,097**	**93,031**

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:

	2017	*2016*
Term deposits up to 1 year		
Credit rating from B- to B+	37,157	37,126
Total term deposits up to 1 year	**37,157**	**37,126**
Term deposits over 1 year		
Credit rating from A- to A+	5,650	5,821
Credit rating from BB- to BB+	3,082	2,390
Total term deposits over 1 year	**8,732**	**8,211**
Total deposits with banks and other financial institutions	**45,889**	**45,337**

(Thousands of euros)

6. Deposits with banks and other financial institutions (continued)

Amounts due from the Central Bank of Cuba

	2017	*2016*
Term deposits with the Central Bank of Cuba without credit rating	34,967	34,967
Less: allowance for impairment	(34,967)	(34,967)
Term deposits with the Central Bank of Cuba	–	–

Concentration of deposits with banks and other financial institutions

As at 31 December 2017, besides deposits with the Central Bank of Cuba, the Group had three counterparties (31 December 2016: three counterparties) accounting for over 10% of the Group's total deposits with banks and other financial institutions. As at 31 December 2017, deposits with these counterparties amounted to EUR 25,724 thousand (31 December 2016: EUR 37,125 thousand).

7. Derivative financial instruments

The Group performs the 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 at 31 December 2017 and 31 December 2016 and notional amounts of term contracts for the purchase and sale of foreign currency specifying contractual exchange rates.

	31 December 2017				
	Notional amount		*Weighted average exchange rate*	*Fair value*	
	Purchase	*Sale*		*Assets*	*Liabilities*
Derivative financial assets and liabilities at fair value through profit or loss					
Swaps	EUR 180,000 thousand	USD 209,572 thousand	1.16	5,203	89
	EUR 10,270 thousand	HUF 3,160,000 thousand	307.69	54	–
	RUB 9,997,998 thousand	EUR 158,232 thousand	63.20	–	8,603
	RUB 3,000,000 thousand	USD 52,910 thousand	56.70	638	–
	RON 319,800 thousand	EUR 70,544 thousand	4.53	931	1,212
Forwards	EUR 34,000 thousand	USD 39,527 thousand	1.16	935	–
Total derivative financial assets and liabilities at fair value through profit or loss				**7,761**	**9,904**
Derivative financial assets and liabilities designated as hedging instruments					
Swaps	RON 298,300 thousand	EUR 67,068 thousand	4.45	–	5,169
Total derivative financial assets and liabilities designated as hedging instruments				**–**	**5,169**
Derivative financial instruments				**7,761**	**15,073**

(Thousands of euros)

7. Derivative financial instruments (continued)

	31 December 2016				
	Notional amount		Weighted average	Fair value	
	Purchase	Sale	exchange rate	Assets	Liabilities
Derivative financial assets and liabilities at fair value through profit or loss					
Swaps	RUB 9,136,720 thousand	EUR 132,150 thousand	69.42	14,246	883
	RON 110,300 thousand	EUR 24,971 thousand	4.44	–	632
	EUR 117,000 thousand	USD 128,825 thousand	1.10	116	5,704
	EUR 8,000 thousand	RUB 572,280 thousand	71.54	–	788
Forwards	EUR 34,000 thousand	USD 37,896 thousand	1.11	–	2,080
Total derivative financial assets and liabilities at fair value through profit or loss				**14,362**	**10,087**
Derivative financial assets and liabilities designated as hedging instruments					
Swaps	RON 298,300 thousand	EUR 67,068 thousand	4.45	–	1,536
Total derivative financial assets and liabilities designated as hedging instruments				**–**	**1,536**
Derivative financial instruments				**14,362**	**11,623**

Due to issue off bonds denominated in currencies other than the Group's functional currency (Note 16), the Group concluded cross currency interest rate swaps and currency forwards on an arm's length basis with large international and Russian 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 fair value of the bond issue in Romanian lei placed on September 27, 2016 (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 notional amounts indicate the volume of transactions outstanding at the end of the reporting period and are not indicative of the credit risk.

As at 31 December 2017 and 31 December 2016, 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 notional 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 EUR to RUB exchange rates.

(Thousands of euros)

8. Available-for-sale investment securities

Available-for-sale investment securities comprise:

	2017	*2016*
Owned by the Group		
Quoted debt securities		
Government bonds		
Government bonds of member countries		
Credit rating from BBB- to BBB+	–	39,923
Credit rating from BB- to BB+	–	12,755
Government bonds of non-member countries		
Credit rating AAA	4,066	–
Credit rating AA+	5,396	–
Credit rating B-	18,552	–
Government bonds	**28,014**	**52,678**
Corporate bonds		
Credit rating from A- to A+	12,292	21,152
Credit rating from BBB- to BBB+	20,370	21,861
Credit rating from BB- to BB+	62,496	57,579
Credit rating from B- to B+	13,817	17,575
Corporate bonds	**108,975**	**118,167**
Total quoted debt securities	**136,989**	**170,845**
Quoted equity instruments		
Credit rating A-	633	–
Credit rating BBB	1,077	–
No credit rating	5	4
Total quoted equity instruments	**1,715**	**4**
Available-for-sale investment securities	**138,704**	**170,849**
Pledged under repurchase agreements		
Quoted debt securities		
Government bonds of member countries		
Credit rating A+	10,010	10,286
Government bonds of non-member countries		
Credit rating A+	7,867	7,597
Government bonds	**17,877**	**17,883**
Corporate bonds		
Credit rating AAA	19,991	22,486
Credit rating from AA- to AA+	7,466	4,688
Credit rating from A- to A+	18,544	32,521
Credit rating from BBB- to BBB+	5,995	4,994
Credit rating from BB- to BB+	6,850	15,886
Corporate bonds	**58,846**	**80,575**
Total quoted available-for-sale debt securities pledged under repurchase agreements	**76,723**	**98,458**

Government bonds represent EUR-denominated and USD-denominated securities issued and guaranteed by the Ministries of Finance of these countries, maturing in 2020-2027 (31 December 2016: maturing in 2018-2027). The annual coupon rate for these bonds varies from 0.4% to 7.6% (31 December 2016: from 0.4% to 7.9%).

Corporate bonds are represented by the bonds issued by large companies and banks of member countries of the Bank, as well as corporate international companies and development banks that have similar goals and missions with the Group, maturing in 2020-2026 (31 December 2016: maturing in 2018-2031). The annual coupon rate for these bonds varies from 0.4% to 7.9% (31 December 2016: from 0.6% to 10.3%).

Equity securities are represented by shares and depositary receipts issued by major international companies.

(Thousands of euros)

9. Loans to banks

During 2017, 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 facilitate the development of small and medium-sized businesses in the member countries and participate in financing of socially important infrastructure projects in these countries. The Group considers national development institutes, export and import banks and agencies, international financial organizations and development banks as its key counterparties.

In 2017 and 2016, the Group provided trade financing loans and long-term loans to borrowers operating in the following countries:

	2017	*2016*
Trade financing loans		
Russian Federation	23,298	953
Republic of Belarus	3,239	–
Trade financing loans	**26,537**	**953**
Long-term loans to banks		
Russian Federation	75,401	26,425
Republic of Cuba	49,863	–
Mongolia	33,735	47,970
Socialist Republic of Vietnam	25,252	19,019
Long-term loans to banks	**184,251**	**93,414**
Less: allowance for impairment of loans to banks	(9,153)	–
Total loans to banks	**201,635**	**94,367**

The information on overdue loans as at 31 December 2017 and 31 December 2016 is provided below:

	2017	*2016*
Total loans with overdue principal and/or interest	15,254	–
Less: allowance for impairment of loans to banks	(9,153)	–
Overdue loans to banks	**6,101**	**–**

For the purposes of these consolidated financial statements, a loan to a bank 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.

Allowance for impairment of loans to banks

A reconciliation of the allowance for impairment of loans to banks by country is as follows:

	Russian Federation	***Total***
At 1 January 2017	**–**	**–**
Net charge for the period	9,153	**9,153**
At 31 December 2017	**9,153**	**9,153**
Individual impairment	**9,153**	**9,153**
Gross amount of loans to banks individually determined to be impaired, before deducting any individually assessed impairment allowance	**15,254**	**15,254**

During 2016 and as at 31 December 2016, there were no impaired loans, and no allowance for impairment was accrued.

(Thousands of euros)

9. 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 31 December 2017 and 31 December 2016:

	2017		*2016*	
	Loans to banks	***Share in the total loans, %***	***Loans to banks***	***Share in the total loans, %***
State guarantees	49,863	24.7	–	–
Pledge of real property (mortgage) and title	–	–	7,247	7.7
Uncollateralized part of the loans	151,772	75.3	87,120	92.3
	201,635	**100.0**	**94,367**	**100.0**

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 31 December 2017, long-term loans and trade financing loans to two banks (31 December 2016: five banks) with a total amount of loans to each of them exceeding 10% of total loans to banks were recorded on the Group's balance sheet. As at 31 December 2017, the total amount of such major loans was EUR 70,100 thousand (31 December 2016: EUR 74,787 thousand) and no impairment allowances (31 December 2016: no allowances) were made for them.

10. Loans to customers

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

	2017	*2016*
Russian Federation	81,817	61,213
Romania	78,440	40,235
Slovak Republic	60,464	8,411
Republic of Bulgaria	57,995	65,922
Czech Republic	49,967	22,930
Hungary	42,910	–
Republic of Ecuador	34,763	39,570
Republic of Panama	29,775	36,276
Mongolia	24,425	5,683
Kingdom of the Netherlands	5,847	–
USA	1,666	6,108
Gross loans to customers	**468,069**	**286,348**
Less: allowance for impairment of loans to customers	(5,555)	(17,312)
Loans to customers	**462,514**	**269,036**

The information on overdue loans as at 31 December 2017 and 31 December 2016 is provided below:

	2017	*2016*
Total loans with overdue principal and/or interest	15,151	14,769
Less: allowance for impairment of loans to customers	(5,255)	(14,769)
Overdue loans to customers	**9,896**	**–**

For the purposes of these 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.

(Thousands of euros)

10. Loans to customers (continued)

Allowance for impairment of loans to customers

A reconciliation of the allowance for loan impairment by country is as follows:

	Slovak Republic	*Republic of Bulgaria*	*Romania*	*Total*
At 1 January 2017	**8,103**	**6,955**	**2,254**	**17,312**
Net charge for the period	–	11	3,001	**3,012**
Write off against previously accrued allowance	(8,103)	(6,666)	–	**(14,769)**
At 31 December 2017	**–**	**300**	**5,255**	**5,555**
Individual impairment	**–**	**–**	**5,255**	**5,255**
Gross amount of loans to customers, individually determined to be impaired, before deducting any individually assessed impairment allowance	**–**	**–**	**15,151**	**15,151**

	Slovak Republic	*Republic of Bulgaria*	*Romania*	*Total*
At 1 January 2016	**3,000**	**6,755**	**–**	**9,755**
Net charge for the period	5,103	200	2,254	**7,557**
At 31 December 2016	**8,103**	**6,955**	**2,254**	**17,312**
Individual impairment	**8,103**	**6,666**	**–**	**14,769**
Gross amount of loans to customers, individually determined to be impaired, before deducting any individually assessed impairment allowance	**8,103**	**6,666**	**–**	**14,769**

The following table provides an analysis of the customer loan portfolio, net of allowance for impairment, by types of collateral as at 31 December 2017 and 31 December 2016:

	2017		*2016*	
	Loans net of allowance for impairment	*Share in the total loans, %*	*Loans net of allowance for impairment*	*Share in the total loans, %*
Pledge of real property (mortgage) and title	86,728	18.8	25,811	9.6
State guarantees	74,476	16.1	75,845	28.2
Corporate guarantees	70,599	15.3	22,930	8.5
Pledge of shares	42,504	9.2	21,579	8.0
Pledge of equipment and goods in turnover	15,292	3.3	22,641	8.4
Pledge of rights of claim	6,150	1.3	22,970	8.5
Pledge of vehicles	1,476	0.3	2,756	1.0
Uncollateralized part of the loans	165,289	35.7	74,504	27.8
Total loans to customers	**462,514**	**100.0**	**269,036**	**100.0**

Analysis of collateral for loans to customers

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.

(Thousands of euros)

10. Loans to customers (continued)

Concentration of loans to customers

As at 31 December 2017, loans to three borrowers (2016: three borrowers) with the total amount of loans to each of the three borrowers exceeding 10% of total loans to customers were recorded on the Group's balance sheet. As at 31 December 2017, these loans comprised EUR 181,256 thousand (31 December 2016: EUR 107,191 thousand) in total and no impairment allowances (31 December 2016: no allowances) were made for them.

Analysis of loans to customers by industry

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

	2017	*2016*
Leasing	116,910	85,897
Production and transmission of electricity	104,847	39,570
Metal working industry	49,967	22,930
Crude oil refining	30,099	10,002
Food and beverage	25,662	27,504
Communications	22,815	–
Manufacturing of electrical equipment	21,159	20,809
Mining	20,632	–
Real estate	19,722	308
Advisory services	19,543	–
Agriculture	13,408	14,295
Production of pharmaceutical products	11,319	6,645
Transport	11,248	13,752
Trading	738	6,036
Chemical production	–	23,831
Construction	–	14,769
	468,069	**286,348**
Less: allowance for impairment of loans to customers	(5,555)	(17,312)
Loans to customers	**462,514**	**269,036**

11. Investment property

In 2017 and 2016, the following changes occurred in the cost of property under operating lease:

	2017	*2016*
At 1 January	**21,840**	**33,819**
Additions	–	14,324
Inseparable improvements	39	50
Transfers to property and equipment	–	(24,179)
Effect of revaluation	(26)	(2,174)
Carrying amount at 31 December	**21,853**	**21,840**

The Group leases out investment properties under operating lease agreements. In 2017, the Group's income from lease of investment property amounted to EUR 4,034 thousand (2016: EUR 3,442 thousand).

As at 31 December 2017, the fair value of investment properties are determined based on the results of the valuation performed by independent companies of professional appraisers which have acknowledged qualification and relevant professional experience in appraising real property of a similar category and in a similar location.

The fair value is determined by reference to market-based evidence and ability to generate income. For further details on the fair value of investment property, refer to Note 24.

(Thousands of euros)

11. Investment property (continued)

If the investment property was measured using the cost method, the carrying amounts as at 31 December 2017 and 31 December 2016 would be as follows:

	2017	*2016*
Cost	20,141	20,091
Additions	49	50
Accumulated depreciation	(2,611)	(2,370)
Net book value	**17,579**	**17,771**

The Group has neither restrictions on the sale of its investment property nor contractual obligations to purchase, construct or develop investment properties, or to repair, maintain and enhance them.

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(Thousands of euros)

12. Property, equipment and intangible assets

The movements in property, equipment and intangible assets for the years 2017 and 2016 were as follows:

	Buildings	*Equipment*	*Computers and software*	*Office furniture*	*Vehicles*	*Intangible assets*	*Other*	*Capital expenditure*	*Total*
Cost or revalued amount									
At 1 January 2017	**67,644**	**7,500**	**3,361**	**307**	**808**	**2,472**	**183**	**427**	**82,702**
Additions	–	–	–	–	–	–	–	1,749	**1,749**
Transfers	350	364	150	14	–	590	2	(1,470)	**–**
Disposals	–	(283)	(1,588)	(20)	(119)	(11)	(7)	–	**(2,028)**
Recovery of accumulated depreciation and amortization upon revaluation	(1,039)	–	–	–	–	–	–	–	**(1,039)**
Effect of revaluation	803	–	–	–	–	–	–	–	**803**
At 31 December 2017	**67,758**	**7,581**	**1,923**	**301**	**689**	**3,051**	**178**	**706**	**82,187**
Accumulated depreciation and amortization									
At 1 January 2017	**(117)**	**(6,747)**	**(2,730)**	**(236)**	**(580)**	**(343)**	**(105)**	–	**(10,858)**
Charge for the period	(1,108)	(250)	(284)	(21)	(102)	(237)	(6)	–	**(2,008)**
Disposals	–	283	1,587	18	119	14	7	–	**2,028**
Recovery of accumulated depreciation and amortization upon revaluation	1,039	–	–	–	–	–	–	–	**1,039**
At 31 December 2017	**(186)**	**(6,714)**	**(1,427)**	**(239)**	**(563)**	**(566)**	**(104)**	**–**	**(9,799)**
Net book value									
At 31 December 2016	**67,527**	**753**	**631**	**71**	**228**	**2,129**	**78**	**427**	**71,844**
At 31 December 2017	**67,572**	**867**	**496**	**62**	**126**	**2,485**	**74**	**706**	**72,388**

(Thousands of euros)

12. Property, equipment and intangible assets (continued)

	Buildings	*Equipment*	*Computers and software*	*Office furniture*	*Vehicles*	*Intangible assets*	*Other*	*Capital expenditure*	*Total*
Cost or revalued amount									
At 1 January 2016	**62,807**	**7,073**	**3,278**	**296**	**808**	**325**	**176**	**1,591**	**76,354**
Additions	–	–	–	–	–	–	–	1,754	**1,754**
Transfers from investment property	24,179	–	–	–	–	–	–	–	**24,179**
Transfers	223	436	83	22	–	2,147	7	(2,918)	**–**
Disposals	–	(9)	–	(11)	–	–	–	–	**(20)**
Recovery of accumulated depreciation and amortization upon revaluation	(1,057)	–	–	–	–	–	–	–	**(1,057)**
Effect of revaluation	(18,508)	–	–	–	–	–	–	–	**(18,508)**
At 31 December 2016	**67,644**	**7,500**	**3,361**	**307**	**808**	**2,472**	**183**	**427**	**82,702**
Accumulated depreciation and amortization									
At 1 January 2016	**–**	**(6,547)**	**(2,445)**	**(228)**	**(477)**	**(165)**	**(99)**	–	**(9,961)**
Charge for the period	(1,174)	(209)	(285)	(19)	(103)	(178)	(6)	–	**(1,974)**
Disposals	–	9	–	11	–	–	–	–	**20**
Recovery of accumulated depreciation and amortization upon revaluation	1,057	–	–	–	–	–	–	–	**1,057**
At 31 December 2016	**(117)**	**(6,747)**	**(2,730)**	**(236)**	**(580)**	**(343)**	**(105)**	**–**	**(10,858)**
Net book value									
At 31 December 2015	**62,807**	**526**	**833**	**68**	**331**	**160**	**77**	**1,591**	**66,393**
At 31 December 2016	**67,527**	**753**	**631**	**71**	**228**	**2,129**	**78**	**427**	**71,844**

As at 31 December 2017, the cost of fully depreciated property and equipment still used by the Group was EUR 5,217 thousand (31 December 2016: EUR 7,982 thousand).

(Thousands of euros)

12. Property, equipment and intangible assets (continued)

As at 31 December 2017, the fair value of buildings owned by the Group is determined based on the results of the valuation performed by an independent company of professional appraisers which have acknowledged qualification and relevant professional experience in appraising real property of a similar category and in a similar location.

The fair value is determined by reference to market-based evidence and ability to generate income. For further details on the fair value of property and equipment, refer to Note 24.

If the buildings were measured using the cost method, the carrying amounts as at 31 December 2017 and 31 December 2016 would be as follows:

	2017	*2016*
Cost	52,355	52,132
Additions	350	223
Accumulated depreciation and amortization	(21,298)	(20,871)
Net book value	**31,407**	**31,484**

13. Other assets and liabilities

Other assets comprise:

	2017	*2016*
Financial assets		
Settlements on bank transactions	2,007	1,814
Accounts receivable on business operations	73	1,352
Guarantee payments	26	42
Other financial assets	363	136
	2,469	**3,344**
Less: allowance for impairment	(1,741)	(1,924)
Total financial assets	**728**	**1,420**
Non-financial assets		
Advances issued	990	–
Assets held for sale – real estate	89	89
Inventories – real estate	50	55
Other non-financial assets	619	755
Total non-financial assets	**1,748**	**899**
Total other assets	**2,476**	**2,319**

The movements in other impairment allowance are as follows:

	2017	*2016*
Allowance at 1 January	**1,924**	**1,633**
Reversal charge for the year	(29)	(67)
Change in allowance resulting from changes in exchange rates	(154)	358
Allowance at 31 December	**1,741**	**1,924**

(Thousands of euros)

13. Other assets and liabilities (continued)

Other liabilities comprise:

	2017	*2016*
Financial liabilities		
Other accounts payable on bank transactions	1,125	662
Other accounts payable on business operations	1,015	1,182
Other financial liabilities	8	19
Total financial liabilities	**2,148**	**1,863**
Non-financial liabilities		
Settlements with employees	4,070	3,647
Other non-financial liabilities	178	72
Total non-financial liabilities	**4,248**	**3,719**
Total other liabilities	**6,396**	**5,582**

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:

	2017	*2016*
Due to banks up to 1 year		
Term deposits of banks and other financial institutions	3,496	52,856
Total due to banks up to 1 year	**3,496**	**52,856**
Due to banks over 1 year		
Repurchase agreements	62,015	66,069
Total due to banks over 1 year	**62,015**	**66,069**
Total due to banks	**65,511**	**118,925**

The Group performs daily monitoring of 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 31 December 2017, the Group has two counterparties (31 December 2016: two counterparties) accounting for over 10% of the Group's total deposits from banks and other financial institutions. As at 31 December 2017, deposits from these counterparties amounted to EUR 62,015 thousand (31 December 2016: EUR 111,418 thousand).

15. Long-term loans of banks

Long-term loans of banks comprise:

	2017	*2016*
Syndicated loans	59,755	59,039
SSD	22,939	–
Loans of banks	12,898	14,310
Total long-term loans of banks	**95,592**	**73,349**

In 2017, the Group issued SSD debentures (Schuldscheindarlehen) in the Western European market in the total amount of EUR 23,000 thousand.

On 3 August 2017, the Group raised bilateral financing in the Hungarian financial market in the amount of HUF 4.0 billion (EUR 13,185 thousand).

(Thousands of euros)

16. Debt securities issued

Debt securities issued comprise:

	Interest rate, % p.a.	*Maturity*	*2017*	*2016*
RUB-denominated bonds	0.01-9.5	2024-2027	267,112	151,516
RON-denominated bonds	3.4-4.1	2018-2020	152,084	90,885
EUR-denominated bonds	1.59-3.5	2019-2020	90,017	30,127
Total bonds			**509,213**	**272,528**

On 27 April 2017, the Group made a secondary placement of RUB-denominated bonds, series 02, in the amount of RUB 2,998.0 million (EUR 48,615 thousand) that had been repurchased in 2016 under the offer. A new coupon rate of 9.5% p.a. was set, with an offer planned for April 2019.

The Group redeemed RUB-denominated bonds, series 03, worth a total of RUB 3.99 billion (EUR 62,858 thousand) on 2 June 2017, as scheduled under the offer. A new coupon rate of 0.01% was set for the remaining bonds of this issue.

On 14 June 2017, the Group placed an issue of exchange-traded bonds at the Moscow Exchange under the Program to issue exchange-traded bonds registered in 2016. The issue totaled RUB 10 billion (EUR 156,579 thousand) and provides for an offer in March 2020. The coupon rate on the bonds was set at 8.75% payable on a quarterly basis with the first coupon payment to be made on 11 September 2017.

The Group placed a third issue of bonds in the Romanian stock market on 25 September 2017. The issue comprises two tranches of EUR 60 million and RON 300 million (EUR 65,199 thousand) maturing in three years. EUR-denominated bonds and RON-denominated bonds bear interest rates of 1.593% p.a. and 3m Robor + 1.50%, respectively.

The Group partially redeemed RUB-denominated bonds, series 01, worth a total of RUB 489,432 thousand (EUR 7,259 thousand) on 27 October 2017, as scheduled under the offer. A new coupon rate of 0.01% was set for the remaining bonds of this issue.

The Group redeemed and made a secondary placement of bonds, series 04, worth RUB 1.2 billion (EUR 18,271 thousand) on 21 November 2017, as scheduled under the offer. A new coupon rate of 8.15% was set.

On 27 September 2016, the Group issued bonds denominated in Romanian lei in the amount of RON 300.0 million (EUR 67,398 thousand) maturing in three years. The coupon rate on the bonds was set at 3.4% payable annually with the first coupon payment to be made on 27 September 2017.

On 31 October 2016, the Group offered to repurchase RUB-denominated bonds, series 02, and repurchased almost the total amount of those bonds (RUB 2,998.0 million, or EUR 43,327 thousand) from investors. A new coupon rate of 0.1% p.a. was set for the remaining bonds.

At the dates of placement of the RUB-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, to the currency required by the Group (EUR, USD) to Finance credit projects in the required currency. The Group applies hedge accounting for the fair value of the bond issue in Romanian lei placed on 27 September 2016 (Note 16). The effects of using cross-currency interest rate swaps and fair value hedge operations are disclosed in Note 21.

Among other things, the Group used the proceeds from issuance of debt instruments and placement of bonds to expand its loan portfolio.

(Thousands of euros)

17. Equity

Subscribed and paid-in capital

The Bank's subscribed capital amounts to EUR 1,300,000 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 31 December 2017, the unpaid portion of the Bank's subscribed capital in the amount of EUR 985,038 thousand (31 December 2016: EUR 986,947 thousand) is the amount of contributions that have not been made yet by the Bank's member countries and the amount of unallocated equity contributions totaling EUR 175,500 thousand (31 December 2016: EUR 175,500 thousand).

The Government of Mongolia made an additional contribution of EUR 1,909 thousand to the Bank's equity on 27 December 2017.

On 9 March 2016, in accordance with the Memorandum of Understanding singed at the 102nd meeting of the IIB's Council (20-21 November 2014), the Government of Hungary contributed EUR 10,000 thousand to the Bank's equity.

As a result, the paid-in capital of the International Investment Bank totaled EUR 314,962 thousand (31 December 2016: EUR 313,053 thousand).

Revaluation reserve for available-for-sale investment securities and revaluation reserve for property and equipment

The movements in the revaluation reserve for available-for-sale investment securities and revaluation reserve for property and equipment were as follows:

	Revaluation reserve for available-for-sale investment securities	*Revaluation reserve for property and equipment*
At 1 January 2016	**(1,664)**	**31,453**
Net unrealized gains on available-for-sale investment securities	10,673	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(10,515)	–
Revaluation of buildings	–	(18,508)
At 31 December 2016	**(1,506)**	**12,945**
Net unrealized gains on available-for-sale investment securities	9,145	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(7,399)	–
Revaluation of buildings	–	803
At 31 December 2017	**240**	**13,748**

Revaluation reserve for available-for-sale investment securities

The revaluation reserve for available-for-sale investment securities records fair value changes of available-for-sale investments.

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.

(Thousands of euros)

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.

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 is exempt from any national or local direct taxes or duties effective in the territories of its member states. For taxation purposes, its subsidiaries are subject to the provisions of the effective Russian tax, currency and customs legislation.

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 31 December 2017, credit-related commitments of the Group comprised off-balance credit-related commitments, in particular undrawn loan facilities, guarantees and reimbursement obligations.

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.

Off-balance credit-related commitments are presented in the table below as at 31 December 2017 and 31 December 2016.

	2017	*2016*
Undrawn loan facilities	116,161	33,103
Reimbursement obligations	32,812	9,898
Guarantees issued	15,425	4,934
Total credit-related commitments	**164,398**	**47,935**

19. Leases

Group as lessor

The Group provides its investment property for operating leases. As at 31 December 2017, the Group's non-cancelable operating lease rentals amount to EUR 6,819 thousand (31 December 2016: EUR 4,752 thousand) and will be settled within 1-5 years.

(Thousands of euros)

20. Interest income and interest expenses

Net interest income comprises:

	2017	*2016*
Loans to customers	19,754	13,886
Loans to banks	6,908	6,462
Available-for-sale investment securities	6,006	5,091
Deposits with banks and other financial institutions, including cash and cash equivalents	3,252	4,041
Held-to-maturity investment securities	–	2,975
Other	43	–
Interest income	**35,963**	**32,455**
Debt securities issued	(27,851)	(22,511)
Long-term loans of banks	(2,377)	(1,798)
Funds raised under repurchase agreements	(1,940)	(1,839)
Current customer accounts	(237)	(305)
Due to banks and other financial institutions	(161)	(1,198)
Interest expenses	**(32,566)**	**(27,651)**
Net interest income	**3,397**	**4,804**

In 2017, interest income accrued on impaired loans issued amounted to EUR 122 thousand (2016: EUR 185 thousand).

21. Net gains from operations in foreign currencies and with derivatives

Gains less losses from operations in foreign currencies and with derivatives comprised:

	2017	*2016*
Derivative financial instruments and operations with foreign currencies		
Net gains from dealing in foreign currencies and operations with derivatives	29,915	9,068
Net (losses)/gains from revaluation of derivative financial instruments	(6,419)	32,330
Total derivative financial instruments and operations with foreign currencies	**23,496**	**41,398**
Fair value hedge operations		
Net gains from fair value hedge operations	1,016	–
Net losses from revaluation of fair value hedge operations	(3,633)	(1,536)
Net gains from revaluation of the hedged object	2,553	1,290
Total fair value hedge operations	**(64)**	**(246)**
Translation differences		
Net losses from revaluation of assets and liabilities in foreign currencies	(7,483)	(31,173)
Net gains from operations in foreign currencies and with derivatives	**15,949**	**9,979**

(Thousands of euros)

22. General and administrative expenses

General and administrative expenses comprise:

	2017	*2016*
Employee compensations and employment taxes	13,105	13,001
Depreciation of property, equipment and intangible assets (Note 12)	2,008	1,974
IT-expenses, inventory and occupancy expenses	1,842	1,715
Expenses related to business travel, representative and accommodation expenses	805	682
Professional services	559	1,019
Other	553	548
General and administrative expenses	**18,872**	**18,939**

23. Risk management

Risk management framework

The Group's risk management policy is based on the conservative assessment approach and is mainly aimed at mitigation of 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 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 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 situation on the 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 the evaluating, assuming, and controlling risks ("Three lines of defense"):

- Risk-taking (1st 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 (2nd 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 (3rd line of defense): independent quality assessment for existing risk management processes, identification of violations, and proposals for the improvement of the risk management system.

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

The Bank's Council, the Board, the Finance Committee, the Credit Committee and the Risk Management Department are responsible for managing the Group's risks.

(Thousands of euros)

23. Risk management (continued)

Risk management system (continued)

The Bank's Council is responsible for the general control over the risk management system, determines its development strategy and sets strategic limits and risk appetite.

The Board is the executive body of the Bank, which is responsible for compliance with risk management policies and procedures and exercises control over ratios, limits and risk appetite set by the Council. The Board ensures co-operation among all divisions and committees of the Bank.

The Finance Committee determines approaches to forming the optimal structure of the balance sheet, taking into account information of current and expected level of risks associated with assets and liabilities management within the established limits and other restrictions. It also ensures management and control over the credit risk, market risk, operational risk, reputational risk, legal risk and liquidity risk and reviews the limit-setting offers.

The Credit Committee manages the Group's loan portfolio in accordance with its effective lending policy, aligns operation of the Bank's divisions in terms of the credit risk management and reviews the offers for setting credit risk limits in respect of the certain counterparties.

Committees meet on a regular basis and provide to the Board their recommendations on how to perform transactions and improve risk management policies and procedures.

The Risk Management Department collects and analyzes information related to all types of bank risks, develops and implements risk management methodology, performs their qualitative and quantitative assessment, prepares recommendations for the Board and committees of the Bank to mitigate risk impact on the Group's performance.

During 2017, further development of the risk management system started in 2013 was aimed at implementation of Basel standards and best practices of development banks within the Group.

In compliance with the existing procedures, twice a year the Group sets and reviews limits for counterparties for the purpose of performing financial transactions and assessing their creditworthiness. As part of the lending activity analysis, the Group continuously monitored the level of its loan assets risk. During the reporting period, the Group sent its specialists to certain borrowers in order to monitor the implementation of the projects and identify potential primary evidence of impairment of loan assets.

To control and monitor the compliance with limits, the Group performs daily monitoring of compliance with restrictions set in the list of the Bank's limits applied to transactions on money, currency and equity markets, as well as structural limits and stop-loss limits. In addition, the Group's management receives regular reports on the status of risks within the Group.

Risk appetite

The risk appetite is the aggregate amount of risk taken by the Group to achieve its strategic goals and objectives. By approving the level of risk appetite, the Bank's Council determines the willingness to accept a risk or the amount of equity and liquidity that the Bank is willing to risk in the implementation of this strategy.

Risk appetite consists of 4 main components:

- The allocation of capital and liquidity (if necessary).
- Target allocation of capital across the main types of risk.
- The level of risk and target risk appetite in the context of the main performance indicators of the Group and risks significant for the Group.
- Determining levels of tolerance.

The procedure for determining the Group's risk appetite shall be defined by the Risk Management Department and submitted for review by the Board and approval by the Council of the Bank.

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

(Thousands of euros)

23. Risk management (continued)

Risk management system (continued)

In determining the risk appetite, the Group assesses whether the specified risk appetite is acceptable in the current time period and whether it will be acceptable in the future, taking into account:

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

Based on the risk appetite determined by the Council, the Board annually approves the Group’s limits, sublimits, and risk indicators, which should not exceed the target values of the risk appetite.

Risk identification

The Group identifies and manages both external and internal risk factors throughout its organizational structure. As a result of regular analysis of the Group’s exposure to different types of risks performed by the Risk Management Department, the Group identifies factors leading to the increase of the risk level and determines the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks influencing the results of banking transactions. Current risks exposures and their projected changes are discussed during the meetings of the Finance Committee and, if necessary, also communicated to the Board along with the recommendations on possible risk mitigation measures.

Risk assessment, management and control

The Group’s risk exposure is primarily reduced by means of collective decision-making. Strict allocation of responsibilities between divisions and officers of the Group, precise description of instructions and procedures and assignment of competencies and powers to departments and their heads are also important risk mitigation factors. Appropriate methodologies are used to assess the risks. Instructions, procedures and methodologies are regularly reviewed and, if necessary, updated by the Group in order to reflect changed market conditions and improve the risk management methodology.

The risk monitoring system comprises:

- Establishing limits to assume risks based on the respective risk assessment.
- Exercising control over the Group’s exposure by means of compliance with the established limits, regular assessment of the Group’s risk exposure, and internal audit of risk management systems.

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 discharged 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 consolidated borrower or counterparty default risk.

(Thousands of euros)

23. Risk management (continued)

Credit risk (continued)

System of credit risk management

The Group's regulatory documents establish the following:

- Procedures to review and approve loan/credit applications.
- Methodology for the credit assessment of borrowers, counterparties, issuers and insurance companies.
- Requirements to the credit documentation.
- Procedures for the ongoing monitoring of loans and other credit exposures.

Pursuant to the established procedure, the Credit Committee establishes the limits per borrower/group of related borrowers. The Credit Committee structures the transaction to minimize credit risk. The Loan Operations Analysis Department, together with the Risk Management Department, is responsible for ongoing control over the quality of the Group's loan portfolio.

Upon preparation of a transaction by the initiating unit it is reviewed by the Credit Committee, and then it is approved by the Board. The Board is responsible for all direct credit risk exposures in the amount of up to 15% of the Group's share capital and for the period of up to 7 years. Direct credit risks exposures exceeding the specified amount or the period of 7 years should be approved by the Bank's Council.

The corporate loan/credit application and appropriate project documents are reviewed by the Customer Relations Department. Based on the background information on the deal, the Customer Relations Department takes a decision whether to continue work with the client or not. In case of a positive decision, the Loan Operations Analysis Department makes full examination of the deal and sends the full set of required documents for reviewing the loan/credit application to the Legal Department, Risk Management Department, Security Department, Strategic Development and Analysis Department, Internal Control Department, Compliance Control Department, Operational Department, Financial Department, and Structured and Debt Financing Department. These departments prepare expert opinions in the framework of their competence. The loan/credit application is subject to review by the Credit Committee based on the Loan Operations Analysis Department's materials and expert opinions received from the departments. The procedure of making lending decisions comprises the following steps: Step 1 includes reviewing the application and making a decision by the Credit Committee (if such issue falls within its competence); Step 2 includes making a decision by the Board of the Group (if such issue falls within its competence); Step 3 includes sending a set of respective documents approved by the Board of the Bank to the member country in order to obtain the final approval from the country of origin of the borrower or making a decision by the Council of the Bank (if such issue falls within its competence).

Apart from individual customer analysis, the Risk Management Department assesses the whole loan portfolio with regard to credit concentration by industry.

To mitigate credit risk, the Group limits concentrations of exposure by individual customers, counterparties and issuers, groups of related customers, counterparties and issuers as well as by industry and credit rating (for securities). Credit risk management process is based on regular analysis of the creditworthiness of the borrowers and their ability to repay interest and principal, and on correspondent limits modification (if necessary).

The Group continuously monitors the quality of individual credit exposures and regularly reassesses the creditworthiness of its customers. The revaluation is based on the customer's most recent financial statements, past-due status, performance of its business plan and other information submitted by the borrower, or otherwise obtained by the Group. Based on this information, the borrower's internal credit rating (class of the loan) may be revised and, accordingly, the appropriate loan impairment provision may be created or changed.

(Thousands of euros)

23. Risk management (continued)

Credit risk (continued)

Collateral and other credit enhancements

Credit risk is also managed by obtaining pledge of real estate, assets and securities, and other collateral, including corporate and personal guarantees, as well as monitoring availability and value of collateral.

As availability of collateral is important to mitigate credit risk, this factor is a priority for the Group when reviewing loan/credit applications if their terms and conditions are similar. To ensure recovery of its resources associated with conducting lending and project-financing transactions, the Group applies the following types of collateral for recovery of loans and fulfillment of obligations:

- Pledge of equipment and goods in turnover;
- Pledge of real estate (mortgage) and title;
- Pledge of construction investment agreements.

Quality of the collateral provided is assessed by the following criteria: safety, adequacy and liquidity. Collateral is not generally held over interbank loans and deposits, except where securities are held as collateral in reverse repurchase agreements.

The Group assumes that the fair value of the collateral is its value estimate recognized by the Group to calculate the discounted impairment allowance based on its liquidity and possibility of selling such property in the event of borrower's default considering the time needed for such sale, litigation and other costs. Current market value of the collateral, if necessary, is assessed by accredited appraisers or based on the Group's internal expert estimate, or carrying amount of the collateral including adjustment coefficient (discount). Where the market value of the collateral is assessed as impaired, the borrowers are usually required to provide additional collateral.

Portfolio of loans to banks and customers (less allowance for impairment) by type of collateral is analyzed in Notes 9 and 10.

Maximum exposure to credit risk

The maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where the financial instruments are recorded at fair value, their carrying amounts represent the current credit risk exposure but not the maximum credit risk exposure that could arise in the future as a result of changes in values.

Analysis of credit risk concentration by customers' industry is presented in Note 10.

Maximum credit risk exposure by credit-related commitments represents the whole amount of these commitments (Note 18).

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Credit quality per class of financial assets

The assessment of credit quality of assets is based on the qualitative and quantitative assessment of credit risk.

Deposit contracts with banks and other financial institutions are concluded with counterparties with acceptable credit ratings assigned by such internationally recognized rating agencies as Standard & Poor's, Fitch and Moody's.

(Thousands of euros)

23. Risk management (continued)

Credit risk (continued)

Assessment of credit quality of loans is based on a 5-grade system of risk factor categories: standard, sub-standard, doubtful, impaired and uncollectible. The risk factor category is assigned on the basis of the assessment of the customer's financial position, payment discipline, credit history, compliance with 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.

The following table provides information on the credit quality of long-term loans to banks and trade financing loans (Note 9) and loans to customers (Note 10) as at 31 December 2017 and 31 December 2016:

2017	*Loan amount*	*Allowance for impairment*	*Loan amount, including allowance for impairment*	*Impairment to loan amount ratio, %*
Trade financing loans without any signs of impairment identified				
Standard loans				
- *Russian Federation*	23,298	–	23,298	–
- *Republic of Belarus*	3,239	–	3,239	
Long-term loans to banks without any signs of impairment identified				
Standard loans				
- *Russian Federation*	60,147	–	60,147	–
- *Republic of Cuba*	49,863	–	49,863	–
- *Mongolia*	33,735	–	33,735	–
- *Socialist Republic of Vietnam*	25,252	–	25,252	–
Impaired loans				
- *Russian Federation*	15,254	(9,153)	6,101	60
	210,788	**(9,153)**	**201,635**	**4.3**
Loans to customers without any signs of impairment identified				
Standard loans				
- *Russian Federation*	81,817	–	81,817	–
- *Romania*	63,289	–	63,289	–
- *Slovak Republic*	60,464	–	60,464	–
- *Republic of Bulgaria*	51,987	–	51,987	–
- *Czech Republic*	49,967	–	49,967	–
- *Hungary*	42,910	–	42,910	–
- *Republic of Ecuador*	34,763	–	34,763	–
- *Republic of Panama*	29,775	–	29,775	–
- *Mongolia*	24,425	–	24,425	–
- *Kingdom of the Netherlands*	5,847	–	5,847	–
- *USA*	1,666	–	1,666	–
Restructured loans				
- *Republic of Bulgaria*	6,008	(300)	5,708	5.0
Impaired loans				
- *Romania*	15,151	(5,255)	9,896	34.7
	468,069	**(5,555)**	**462,514**	**1.2**
Total loans	**678,857**	**(14,708)**	**664,149**	**2.2**

(Thousands of euros)

23. Risk management (continued)

Credit risk (continued)

2016	*Loan amount*	*Allowance for impairment*	*Loan amount, including allowance for impairment*	*Impairment to loan amount ratio, %*
Trade financing loans without any signs of impairment identified				
Standard loans				
- *Russian Federation*	953	–	953	–
Long-term loans to banks without any signs of impairment identified				
Standard loans				
- *Mongolia*	47,970	–	47,970	–
- *Russian Federation*	26,425	–	26,425	–
- *Socialist Republic of Vietnam*	19,019	–	19,019	–
	94,367	**–**	**94,367**	**–**
Loans to customers without any signs of impairment identified				
Standard loans				
- *Russian Federation*	61,213	–	61,213	–
- *Republic of Bulgaria*	53,477	–	53,477	–
- *Republic of Ecuador*	39,570	–	39,570	–
- *Republic of Panama*	36,276	–	36,276	–
- *Romania*	25,205	–	25,205	–
- *Czech Republic*	22,930	–	22,930	–
- *USA*	6,108	–	6,108	–
- *Mongolia*	5,683	–	5,683	–
- *Slovak Republic*	308	–	308	–
Watch loans to customers				
- *Romania*	15,030	(2,254)	12,776	15.0
Restructured loans				
- *Republic of Bulgaria*	5,779	(289)	5,490	5.0
Impaired loans				
- *Slovak Republic*	8,103	(8,103)	–	100
- *Republic of Bulgaria*	6,666	(6,666)	–	100
	286,348	**(17,312)**	**269,036**	**6.0**
Total loans	**380,715**	**(17,312)**	**363,403**	**4.5**

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Renegotiated loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual impairment assessment, calculated using the loan's original effective interest rate.

(Thousands of euros)

23. Risk management (continued)

Credit risk (continued)

Impairment assessment

The Group creates allowance for impairment of loans that represents its estimate of losses incurred in its loan portfolio. The Group writes off a loan balance against related allowances for impairment of loans only subject to the approval of the Council and where the loan is determined as uncollectible and when all necessary steps to collect the loan are completed. Such decision is made after consideration of the information on significant changes in the borrower's financial position such as inability to repay the loan, and when proceedings from disposal of the collateral are insufficient to cover the debt amount in full.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Due to a limited number of borrowers, the Group considers each loan as individually significant. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of financial support, the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, or more frequently, unless unforeseen circumstances require more careful attention.

The total amount of impairment allowance is approved by the Credit Committee on a monthly basis.

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

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 the IIB's Assets and Liabilities Management Policy, as an integral part of general function of the Group's management.

Decision making matrix related to liquidity management includes a strategic level of liquidity management (the Council), tactical level (the Board and special-purpose committees) and operational level (responsible structural divisions). Asset and Liability Management Department (DUAP or ALM Unit) is responsible for organizing and aligning management of the Group's liquidity position. The Group manages its liquidity position in accordance with planning horizons (up to 6 months) and possible scenarios of movements in liquidity position (stable, stressed).

Main instrument of liquidity position management under the stable scenario is a Plan of Cash Flows defining the cash flow by balance sheet products/instruments and taking into account the plan of future financial operations. The Group determines the balance sheet gaps, payment schedule and need in financing of future operations based on the Plan of Cash Flows. As a result of application of these instruments, DUAP issues appropriate recommendations to responsible structural divisions.

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 liquidity shortage that is critical to the Group's solvency.

(Thousands of euros)

23. Risk management (continued)

Liquidity risk (continued)

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 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 six monthly reporting dates (forecast). Liquidity buffer may be used to close the negative net position. As at 31 December 2017, the liquidity buffer amounts to EUR 83.5 million (31 December 2016: EUR 75.9 million).

Off-balance sheet credit related commitments of the Group are stated in accordance with contractual maturities in the table presented below. In case of absence of contractual schedule of the credit related commitments, these obligations are included into the earliest date, at which the client can demand their execution.

	2017	*2016*
Less than 1 month	25,835	33,213
1 to 3 months	72,744	3,650
3 months to 1 year	41,489	6,138
1 to 5 years	24,330	4,934
Off-balance credit-related commitments	**164,398**	**47,935**

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(Thousands of euros)

23. Risk management (continued)

Liquidity risk (continued)

The following table provides an analysis of assets and liabilities on the basis of the remaining period from the reporting date to the contractual maturity date. Quoted available-for-sale debt securities and equity instruments were included in "Less than 1 month" category as they are highly liquid investment securities, shares and depositary receipts which the Group may sell in the short term on the arm-length basis. Available-for-sale investment securities pledged under repurchase agreements are presented on the basis of periods from the reporting date to the expiry date of respective contractual obligations of the Group.

	2017							*2016*						
	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*
Assets														
Cash and cash equivalents	65,445	652	–	–	–	–	**66,097**	93,031	–	–	–	–	–	**93,031**
Deposits with banks and other financial institutions	5,026	7,097	25,034	8,732	–	–	**45,889**	14,254	–	27,472	3,611	–	–	**45,337**
Derivative financial instruments	935	–	5,072	1,754	–	–	**7,761**	–	116	14,246	–	–	–	**14,362**
Available-for-sale investment securities	138,737	54,783	21,907	–	–	–	**215,427**	170,849	379	502	97,577	–	–	**269,307**
Loans to banks	1,322	53,491	49,786	90,935	–	6,101	**201,635**	–	3,059	16,638	71,051	3,619	–	**94,367**
Loans to customers	8,965	8,719	77,334	147,277	210,323	9,896	**462,514**	2,066	10,139	59,833	133,047	63,951	–	**269,036**
Other financial assets	489	57	19	163	–	–	**728**	166	123	381	750	–	–	**1,420**
Total assets	**220,919**	**124,799**	**179,152**	**248,861**	**210,323**	**15,997**	**1,000,051**	**280,366**	**13,816**	**119,072**	**306,036**	**67,570**	**–**	**786,860**
Liabilities														
Due to banks and other financial institutions	–	(30,982)	(34,059)	(470)	–	–	**(65,511)**	(48,558)	–	–	(70,367)	–	–	**(118,925)**
Current customer accounts	(8,593)	–	–	–	–	–	**(8,593)**	(9,218)	–	–	–	–	–	**(9,218)**
Derivative financial instruments	–	(89)	(1,213)	(13,771)	–	–	**(15,073)**	(2,080)	–	(1,671)	(7,872)	–	–	**(11,623)**
Long-term loans of banks	–	(24)	(59,967)	(18,819)	(16,782)	–	**(95,592)**	–	–	(14,345)	(59,004)	–	–	**(73,349)**
Debt securities issued	–	(3,906)	(26,519)	(478,788)	–	–	**(509,213)**	–	–	(152,484)	(120,044)	–	–	**(272,528)**
Other financial liabilities	(762)	(953)	(396)	(37)	–	–	**(2,148)**	(348)	–	(933)	(582)	–	–	**(1,863)**
Total liabilities	**(9,355)**	**(35,954)**	**(122,154)**	**(511,885)**	**(16,782)**	**–**	**(696,130)**	**(60,204)**	**–**	**(169,433)**	**(257,869)**	**–**	**–**	**(487,506)**
Net position	**211,564**	**88,845**	**56,998**	**(263,024)**	**193,541**	**15,997**	**303,921**	**220,162**	**13,816**	**(50,361)**	**48,167**	**67,570**	**–**	**299,354**
Accumulated net position	**211,564**	**300,409**	**357,407**	**94,383**	**287,924**	**303,921**		**220,162**	**233,978**	**183,617**	**231,784**	**299,354**	**299,354**	

(Thousands of euros)

23. Risk management (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2017 and 31 December 2016 based on contractual undiscounted repayment obligations except for gross settled derivatives that are shown by contractual maturity. Debt securities with put options (offers) are presented as if investors will exercise their options at the earliest possible date. The Group expects that it will have to make payment on current bond offers.

At 31 December 2017	*Less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities						
Due to banks and other financial institutions	–	31,331	34,783	470	–	**66,584**
Current customer accounts	8,593	–	–	–	–	**8,593**
Net settled derivative liabilities	(904)	–	–	–	–	**(904)**
Gross settled derivative financial instruments						
- Contractual amounts payable	–	37,664	155,912	348,158	–	**541,734**
- Contractual amounts receivable	–	(42,735)	(169,034)	(350,742)	–	**(562,511)**
Long-term loans of banks	–	60,496	230	19,498	19,624	**99,848**
Debt securities issued	–	6,935	46,200	523,383	–	**576,518**
Other liabilities	762	953	396	37	–	**2,148**
Total undiscounted financial liabilities	**8,451**	**94,644**	**68,487**	**540,804**	**19,624**	**732,010**

At 31 December 2016	*Less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities						
Due to banks and other financial institutions	48,590	–	–	73,120	–	**121,710**
Current customer accounts	9,218	–	–	–	–	**9,218**
Net settled derivative liabilities	2,080	–	–	–	–	**2,080**
Gross settled derivative financial instruments						
- Contractual amounts payable	–	47,000	147,836	166,726	–	**361,562**
- Contractual amounts receivable	–	(47,089)	(173,371)	(173,625)	–	**(394,085)**
Long-term loans of banks	–	–	15,078	60,989	–	**76,067**
Debt securities issued	–	–	168,367	128,406	–	**296,773**
Other liabilities	348	–	933	582	–	**1,863**
Total undiscounted financial liabilities	**60,236**	**(89)**	**158,843**	**256,198**	**–**	**475,188**

(Thousands of euros)

23. Risk management (continued)

Market risk

Market risk is the risk that the Group shall incur losses due to adverse fluctuations in 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 Board of the Bank performs overall management of market risk.

The Finance Committee coordinates the Group's market risk management policy and reviews and provides recommendations on management of market risks to the Management Board.

The Treasury Department performs strategic management of market risks. The Risk Management Department performs the assessment of equity and currency risks exposure. The Treasury Department manages open positions within the established limits in order to increase the Group's income on a daily basis.

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 the 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 metals 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 currency position of the Group is carried out in major currencies and financial instruments of the Group attributable to a securities portfolio.

At 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.

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 31 December 2017 and 31 December 2016, final data on value at risk (VaR) assessment in relation to currency and price risks assumed by the Group are represented as follows:

	2017	***2016***
Fixed income securities price risk	1,005	2,325
Equity securities price risk	125	–
Currency risk	45	27

(Thousands of euros)

23. Risk management (continued)

Market risk (continued)

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 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.
- 10-day time horizon implies the entire Group's position over this period could have been closed or hedged. Results of 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.

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(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 31 December 2017 and 31 December 2016 is presented below:

	2017					*2016*				
	EUR	*USD*	*RUB*	*Other currencies*	*Total*	*EUR*	*USD*	*RUB*	*Other currencies*	*Total*
Non-derivative financial Assets										
Cash and cash equivalents	50,488	1,730	13,501	378	**66,097**	66,125	19,969	6,778	159	**93,031**
Deposits with banks and other financial institutions	28,936	16,953	–	–	**45,889**	40,568	4,769	–	–	**45,337**
Available-for-sale investment securities	111,516	102,202	–	1,709	**215,427**	208,628	53,070	7,609	–	**269,307**
Long-term loans to banks	147,253	54,382	–	–	**201,635**	53,574	40,793	–	–	**94,367**
Loans to customers	247,804	108,254	64,097	42,359	**462,514**	131,906	137,130	–	–	**269,036**
Other financial assets	186	323	214	5	**728**	225	14	927	254	**1,420**
Total non-derivative financial assets	**586,183**	**283,844**	**77,812**	**44,451**	**992,290**	**501,026**	**255,745**	**15,314**	**413**	**772,498**
Liabilities										
Due to banks and other financial institutions	(34,608)	(29,337)	–	(1,566)	**(65,511)**	(36,981)	(81,944)	–	–	**(118,925)**
Current customer accounts	(8,481)	(112)	–	–	**(8,593)**	(9,089)	(129)	–	–	**(9,218)**
Long-term loans of banks	(82,694)	–	–	(12,898)	**(95,592)**	(59,039)	(14,310)	–	–	**(73,349)**
Debt securities issued	(90,017)	–	(267,112)	(152,084)	**(509,213)**	(30,046)	–	(151,515)	(90,967)	**(272,528)**
Other financial liabilities	(546)	(175)	(1,427)	–	**(2,148)**	(529)	(49)	(1,106)	(179)	**(1,863)**
Total non-derivative financial liabilities	**(216,346)**	**(29,624)**	**(268,539)**	**(166,548)**	**(681,057)**	**(135,684)**	**(96,432)**	**(152,621)**	**(91,146)**	**(475,883)**
Net balance sheet position (excluding derivative financial instruments)	**369,837**	**254,220**	**(190,727)**	**(122,097)**	**311,233**	**365,342**	**159,313**	**(137,307)**	**(90,733)**	**296,615**
Derivative financial instruments										
Claims	190,457	–	197,443	132,639	**520,539**	125,117	–	145,832	90,318	**361,267**
Liabilities	(296,697)	(220,909)	–	(10,245)	**(527,851)**	(224,955)	(124,785)	(8,788)	–	**(358,528)**
Net balance sheet position including derivative financial instruments	**263,597**	**33,311**	**6,716**	**297**	**303,921**	**265,504**	**34,528**	**(263)**	**(415)**	**299,354**

(Thousands of euros)

23. Risk management (continued)

Market risk (continued)

Interest rate risk

The Croup is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such fluctuations but may also reduce or create losses in the event that unexpected movements arise.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on net interest income for one year, based on financial assets and financial liabilities with floating rates. The sensitivity of equity is calculated by revaluing inactive traded available-for-sale securities with fixed rates as at 31 December 2017 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

	Increase in basis points	*Sensitivity of the income statement*	*Sensitivity of equity*
	2017	*2017*	*2017*
RGBEY	0.75%	(719)	–
Libor EUR	0.25%	792	–
Libor USD	0.70%	(214)	–
3Y Swap-RON	6.74%	(15,479)	–
YTM 5Y USTreasuries	1.30%	1,761	–
YTM 5Y German Treasuries	0.50%	962	–

	Decrease in basis points	*Sensitivity of the income statement*	*Sensitivity of equity*
	2017	*2017*	*2017*
RGBEY	1.75%	1,677	–
Libor EUR	0.01%	(32)	–
Libor USD	0.08%	24	–
3Y Swap-RON	4.47%	10,266	–
YTM 5Y USTreasuries	0.50%	(677)	–
YTM 5Y German Treasuries	0.40%	(192)	–

	Increase in basis points	*Sensitivity of the income statement*	*Sensitivity of equity*
	2016	*2016*	*2016*
RGBEY	1.00%	(956)	(233)
Libor EUR	0.12%	128	–
Libor USD	0.60%	405	–
3Y Swap-RON	0.50%	(1,148)	–
YTM 5Y USTreasuries	0.70%	973	–
YTM 5Y German Treasuries	0.40%	770	–

	Decrease in basis points	*Sensitivity of the income statement*	*Sensitivity of equity*
	2016	*2016*	*2016*
RGBEY	3.00%	2,868	699
Libor EUR	0.08%	(86)	–
Libor USD	0.08%	(54)	–
3Y Swap-RON	0.50%	1,148	–
YTM 5Y USTreasuries	0.50%	695	–
YTM 5Y German Treasuries	0.40%	(770)	–

(Thousands of euros)

23. Risk management (continued)

Market risk (continued)

Indices listed in the tables above:

RGBEY − Russian Government Bonds Effective Yield until Redemption;

Libor EUR −London inter-bank EUR offer rate (3 and 6 months);

Libor USD − London inter-bank USD offer rate (1, 3 and 6 months);

3Y Swap-RON − three-year bid rate in Romanian leu on swap market;

YTM 5Y USTreasuries − yield-to-maturity of five-year US Treasuries;

YTM 5Y German Treasuries − yield-to-maturity of five-year Germany Treasuries.

Operational risk

Operational risk is a risk of loss arising from inadequate management and control procedures, fraud, inconsistent business solutions, system failures due to human errors and abuse of power, technical deficiencies, calculation errors, disasters and misuse of the Group's property.

Generally, the Board controls the risk management process as well as compliance with internal policies, approves internal regulations relating to risk management, establishes operational risks monitoring limits and allocates duties relating to operational risk management among various agencies.

The Risk Management Department controls and monitors operational risks and provides respective reporting to the Board. The current control enables to timely identify and eliminate deficiencies in policies and procedures aimed at operational risk management, as well as to cut the possibility and amount of related losses. The Group continuously seeks to enhance its business processes, operating structure and personnel incentives system in order to minimize the impact of operational risk.

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, 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.

(Thousands of euros)

24. Fair value measurements (continued)

Fair value hierarchy (continued)

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability, and the level of the fair value hierarchy. The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2017:

	Level 1 2017	*Level 2 2017*	*Level 3 2017*	*Total 2017*
Assets measured at fair value				
Derivative financial assets	–	7,761	–	**7,761**
Government bonds of member countries	45,891	–	–	**45,891**
Corporate bonds	149,277	18,544	–	**167,821**
Quoted equity instruments	1,710	5	–	**1,715**
Investment property	–	–	21,853	**21,853**
Property and equipment – buildings	–	–	67,572	**67,572**
Liabilities measured at fair value				
Derivative financial liabilities	–	15,073	–	**15,073**
Assets for which fair values are disclosed				
Cash and cash equivalents	85	66,012	–	**66,097**
Deposits with banks and other financial institutions	–	–	45,889	**45,889**
Loans to banks	–	–	201,743	**201,743**
Loans to customers	–	–	465,973	**465,973**
Liabilities for which fair values are disclosed				
Due to banks and other financial institutions	–	–	65,511	**65,511**
Current customer accounts	–	–	8,593	**8,593**
Long-term loans of banks	–	–	95,592	**95,592**
Debt securities issued	–	514,893	–	**514,893**

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(Thousands of euros)

24. Fair value measurements (continued)

Fair value hierarchy (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2016:

	Level 1 2016	*Level 2 2016*	*Level 3 2016*	*Total 2016*
Assets measured at fair value				
Derivative financial assets	–	14,362	–	**14,362**
Government bonds of member countries	70,561	–	–	**70,561**
Corporate bonds	194,003	4,739	–	**198,742**
Quoted equity instruments	–	4	–	**4**
Investment property	–	–	21,840	**21,840**
Property and equipment – buildings	–	–	67,527	**67,527**
Liabilities measured at fair value				
Derivative financial liabilities	–	11,623	–	**11,623**
Assets for which fair values are disclosed				
Cash and cash equivalents	104	92,927	–	**93,031**
Deposits with banks and other financial institutions	–	–	45,337	**45,337**
Loans to banks	–	–	88,558	**88,558**
Loans to customers	–	–	270,243	**270,243**
Liabilities for which fair values are disclosed				
Due to banks and other financial institutions	–	–	118,925	**118,925**
Current customer accounts	–	–	9,218	**9,218**
Long-term loans of banks	–	–	73,349	**73,349**
Debt securities issued	–	279,181	–	**279,181**

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 consolidated financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying amount 2017	*Fair value 2017*	*Unrecognized gain/(loss) 2017*	*Carrying amount 2016*	*Fair value 2016*	*Unrecognized gain/(loss) 2016*
Financial assets						
Cash and cash equivalents	66,097	66,097	–	93,031	93,031	–
Deposits with banks and other financial institutions	45,889	45,889	–	45,337	45,337	–
Loans to banks	201,635	201,743	108	94,367	88,558	(5,809)
Loans to customers	462,514	465,973	3,459	269,036	270,243	1,207
Financial liabilities						
Due to banks and other financial institutions	65,511	65,511	–	118,925	118,925	–
Current customer accounts	8,593	8,593	–	9,218	9,218	–
Long-term loans of banks	95,592	95,592	–	73,349	73,349	–
Debt securities issued	509,213	514,893	(5,680)	272,528	279,181	(6,653)
Total unrecognized change in unrealized fair value			**(2,113)**			**(11,255)**

(Thousands of euros)

24. Fair value measurements (continued)

Fair value measurements

The Group determines the policies and procedures for both recurring fair value measurement, such as unquoted derivatives, investment property and buildings, and for non-recurring measurement, such as inventories.

External appraisers are involved for valuation of significant assets, such as buildings and real estate. Involvement of external appraisers is decided upon by the Bank's Finance Department. Unquoted derivatives are measured by the Finance Department.

Selection criteria include market knowledge, reputation, independence and compliance with professional standards.

Methodologies and assumptions

The following describes the methodologies and assumptions used to determine fair values of assets and liabilities recorded at fair value in the consolidated financial statements and of those items that are not measured at fair value in the consolidated statement of financial position, but their fair value is disclosed.

Assets for which fair value approximates their carrying amount

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair values.

Cash and cash equivalents, deposits with banks and other financial institutions

Management has estimated that as at 31 December 2017 and 31 December 2016 the fair value of deposits with banks and other financial institutions, and cash and cash equivalents was not significantly different from their respective carrying amount. This is due to the existing practice of renegotiating interest rates to reflect current market conditions, and, therefore, a majority of balances carries interest at rates approximating market interest rates.

Financial instruments with fixed and floating rates

The fair value of instruments with floating interest rates is approximately equal to their carrying amount. In case of significant changes of the market situation the interest rates on loans to customers and banks, and long-term loans of banks at a fixed interest rate may be revised. Consequently, the interest rates on the financial instruments issued or received shortly before the balance sheet date are not significantly different from the current interest rates for new instruments with similar credit risk and a similar maturity. If the Group determines that the rates for loans issued or borrowings are significantly different from the current market rates, the Group determines the fair value of such loans issued and borrowings. The valuation is based on the discounted cash flow method using current market interest rates for new financial instruments with similar credit risk and similar maturity. The discount rates depend on the currency, the maturity of the instrument and the credit risk of the counterparty. Management determines that the fair value of amounts due to banks and other financial institutions and long-term loans of banks did not differ significantly from their carrying amounts as at 31 December 2017 and 31 December 2016.

Investment property

The Group engages an independent appraiser for the investment property fair value measurement. As at the valuation date (31 December 2017), the fair values of investment property were based on the results of valuation performed by an accredited independent appraiser and the prices of market transactions using the market, cost and income approaches to fair value measurement.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behavior that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

(Thousands of euros)

24. Fair value measurements (continued)

Methodologies and assumptions (continued)

Property and equipment − buildings

Fair value of the properties was determined using the market approach. This means that valuations performed by the appraiser are based on market transaction prices, significantly adjusted for difference in the nature, location or condition of the specific property. As at the valuation date (31 December 2017), the properties' fair values are based on valuations performed by an accredited independent appraiser and the prices of market transactions using the market, cost and income approaches to fair value measurement.

Significant unobservable inputs in determining the fair value of real estate properties

As at the valuation date (31 December 2017), the significant unobservable inputs used in determining the fair value of real estate properties included the average asking prices for sale of similar properties ranging from EUR 2,773 per. sq. m (range minimum) to EUR 3,982 per sq. m (range maximum), and lease rates ranging from EUR 360 per sq. m. a year (minimum) to EUR 504 per sq. m. a year (maximum).

There were no transfers of financial instruments between Level 1 and Level 2 in 2017 and 2016.

Movements in Level 3 assets and liabilities at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 assets and liabilities that are recorded at fair value:

	At 1 January 2017	*Gains/(losses) recorded in profit or loss*	*Gains/(losses) recorded in comprehensive income*	*Purchases*	*Transfer to property and equipment*	*At 31 December 2017*
Assets						
Property and equipment − buildings	67,527	(1,108)	803	350	−	67,572
Investment property	21,840	(26)	−	39	−	21,853
Total	**89,367**	**(1,134)**	**803**	**389**	**−**	**89,425**

	At 1 January 2016	*Gains/(losses) recorded in profit or loss*	*Gains/(losses) recorded in comprehensive income*	*Purchases*	*Transfer to property and equipment*	*At 31 December 2016*
Assets						
Property and equipment − buildings	62,807	(1,174)	(18,508)	223	24,179	67,527
Investment property	33,819	(2,174)	−	14,374	(24,179)	21,840
Total	**96,626**	**(3,348)**	**(18,508)**	**14,597**	**−**	**89,367**

(Thousands of euros)

25. Transferred financial assets that are not derecognized

The table below provides a summary of the financial assets transferred by the Group in such a way that all the transferred financial assets do not qualify for derecognition:

	Available-for-sale investment securities		
	Government bonds	*Corporate bonds*	*Total*
Transferred financial asset	***2017***	***2017***	***2017***
Carrying amount of assets	17,877	58,846	**76,723**
Carrying amount of associated liabilities	(14,768)	(47,247)	**(62,015)**
Net position	**3,109**	**11,599**	**14,708**

	Available-for-sale investment securities		
	Government bonds	*Corporate bonds*	*Total*
Transferred financial asset	***2016***	***2016***	***2016***
Carrying amount of assets	17,883	80,575	**98,458**
Carrying amount of associated liabilities	(13,485)	(52,584)	**(66,069)**
Net position	**4,398**	**27,991**	**32,389**

Securities sold under repurchase agreements are transferred to a third party and the Group receives cash in exchange. If the securities increase or decrease in value, the Group may, in certain circumstances, require, or be required, to pay additional collateral in the form of cash and/or other securities. The Group has determined that it retains substantially all the risks and rewards of these securities, which include credit risk, market risk, country risk and operational risk, and therefore has not derecognized them. In addition, it recognizes a financial liability for cash received.

The fair value of investment securities available for sale sold under repurchase agreements is equal to their carrying amount (Note 24).

The related liabilities, which are recorded against the cash received for such transactions, are presented in amounts due to banks and other financial institutions in the consolidated statement of financial position as at 31 December 2017 (31 December 2016: in amounts due to banks and other financial institutions).

26. 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

(Thousands of euros)

26. Segment information (continued)

Management monitors the operating results of its business units 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 consolidated financial statements. The following table presents income, profit, assets and liabilities of the Group's operating segments:

2017	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	26,662	9,263	38	**35,963**
Fee and commission income	1,763	–	–	**1,763**
Net gains from operations in foreign currencies and with derivatives	–	15,928	21	**15,949**
Net gains from available-for-sale investment securities	–	7,399	–	**7,399**
Dividend income	–	123	–	**123**
Income from lease of investment property	–	–	4,034	**4,034**
Reversal of allowance for impairment of other assets	–	–	29	**29**
Other segment income	329	–	214	**543**
Total income	**28,754**	**32,713**	**4,336**	**65,803**
Interest expenses	(18,656)	(13,910)	–	**(32,566)**
Fee and commission expense	(16)	(109)	(8)	**(133)**
Allowance for impairment of financial assets	(12,165)	–	–	**(12,165)**
Net losses from revaluation of investment property	–	–	(26)	**(26)**
Other segment expenses	(79)	(23)	(934)	**(1,036)**
Segment results	**(2,162)**	**18,671**	**3,368**	**19,877**
Other unallocated expenses				**(18,872)**
Profit for the period				**1,005**
Development portfolio	648,404	104,932	–	**753,336**
Other segment assets	15,997	229,906	96,801	**342,704**
Total segment assets	**664,401**	**334,838**	**96,801**	**1,096,040**
Total segment liabilities	**359,918**	**334,477**	**5,983**	**700,378**
Other segment information				
Capital expenditures	–	–	1,013	**1,013**

The Group's management separates the "Development portfolio" assets allocated within operating segments. The criteria of separation is orientation of the assets on the fulfilling of the Group's mission. "Development portfolio" includes loans to banks and loans to customers excluding impaired loan projects and the investments in debt securities purchased upon initial placement by the issuer.

(Thousands of euros)

26. Segment information (continued)

2016	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	20,348	12,093	14	**32,455**
Fee and commission income	843	–	–	**843**
Net gains from operations in foreign currencies and with derivatives	–	10,033	(54)	**9,979**
Net gains from available-for-sale investment securities	–	10,515	–	**10,515**
Income from lease of investment property	–	–	3,442	**3,442**
Reversal of allowance for impairment of other assets	–	–	67	**67**
Other segment income	(331)	616	162	**447**
Total income	**20,860**	**33,257**	**3,631**	**57,748**
Interest expenses	(11,250)	(16,401)	–	**(27,651)**
Fee and commission expense	(5)	(128)	(5)	**(138)**
Allowance for impairment of financial assets	(7,646)	–	89	**(7,557)**
Net losses from revaluation of investment property	–	–	(2,174)	**(2,174)**
Other segment expenses	(162)	(68)	(257)	**(487)**
Segment results	**1,797**	**16,660**	**1,284**	**19,741**
Other unallocated expenses				**(18,939)**
Profit for the period				**802**
Development portfolio	363,403	68,349	–	**431,752**
Other segment assets	–	353,239	96,452	**449,691**
Total segment assets	**363,403**	**421,588**	**96,452**	**881,443**
Total segment liabilities	**160,065**	**325,579**	**5,581**	**491,225**
Other segment information				
Capital expenditures	–	–	1,065	**1,065**

In 2017, the Group's revenue from lease operations with two external counterparties (2016: two external counterparties) exceeded 20% of the Group's total revenue (2017: EUR 2,996 thousand; 2016: EUR 2,160 thousand).

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 years ended 31 December 2017 and 31 December 2016 is presented in the table below:

	2017				*2016*			
	Russia	*Other member countries*	*Other countries*	*Total*	*Russia*	*Other member countries*	*Other countries*	*Total*
Interest income	9,346	17,417	9,200	**35,963**	7,755	16,095	8,600	**32,450**
Income from lease of investment property	3,860	174	–	**4,034**	3,442	–	–	**3,442**
Non-current assets	79,917	14,324	–	**94,241**	79,242	14,439	–	**93,681**

Non-current assets include property and equipment and investment property.

(Thousands of euros)

26. Segment information (continued)

Geographical information (continued)

The geographical concentration of the Group's assets and liabilities based on the location of the Group's counterparties as at 31 December 2017 is presented below:

	2017										
	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Hungary*	*Mongolia*	*Socialist Republic of Vietnam*	*Czech Republic*	*Republic of Cuba*	*Other countries*	*Total*
Assets											
Cash and cash equivalents	1,209	792	226	35	–	–	–	36	–	63,799	**66,097**
Deposits with banks and other financial institutions	3,082	–	–	–	–	32,132	–	–	–	10,675	**45,889**
Derivative financial instruments	3,340	–	–	–	–	–	–	–	–	4,421	**7,761**
Available-for-sale investment securities	11,947	30,098	–	10,010	13,817	–	–	34,107	–	115,448	**215,427**
Loans to banks	89,545	–	–	–	–	33,735	25,252	–	49,863	3,240	**201,635**
Loans to customers	81,817	57,694	73,185	60,464	42,910	24,425	–	49,967	–	72,052	**462,514**
Other financial assets	382	6	–	–	5	5	–	1	–	329	**728**
Assets	**191,322**	**88,590**	**73,411**	**70,509**	**56,732**	**90,297**	**25,252**	**84,111**	**49,863**	**269,964**	**1,000,051**
Liabilities											
Due to banks and other financial institutions	1,460	–	–	7,508	–	–	–	1,566	–	54,977	**65,511**
Derivative financial instruments	4,480	–	1,213	–	–	–	–	–	–	9,380	**15,073**
Long-term loans of banks	9,959	7,470	–	–	20,367	–	–	–	–	57,796	**95,592**
Long-term securities issued	266,191	–	212,869	30,153	–	–	–	–	–	–	**509,213**
Other financial liabilities	1,658	33	15	8	–	237	–	–	–	197	**2,148**
Liabilities	**283,748**	**7,503**	**214,097**	**37,669**	**20,367**	**237**	**–**	**1,566**	**–**	**122,350**	**687,537**

(Thousands of euros)

26. Segment information (continued)

Geographical information (continued)

	2016									
	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Hungary*	*Mongolia*	*Socialist Republic of Vietnam*	*Czech Republic*	*Other countries*	*Total*
Assets										
Cash and cash equivalents	16,398	808	26	38	–	–	–	–	75,761	**93,031**
Deposits with banks and other financial institutions	7,159	–	–	–	–	–	–	–	38,178	**45,337**
Derivative financial instruments	2,980	–	–	–	–	–	–	–	11,382	**14,362**
Available-for-sale investment securities	44,688	49,482	36,713	10,286	3,475	–	–	–	124,663	**269,307**
Loans to banks	27,378	–	–	–	–	47,970	19,019	–	–	**94,367**
Loans to customers	61,213	58,967	37,981	308	–	5,683	–	22,930	81,954	**269,036**
Other financial assets	1,407	8	–	1	–	–	–	–	4	**1,420**
Assets	**161,223**	**109,265**	**74,720**	**10,633**	**3,475**	**53,653**	**19,019**	**22,930**	**331,942**	**786,860**
Liabilities										
Due to banks and other financial institutions	–	–	–	7,508	–	–	–	–	111,417	**118,925**
Derivative financial instruments	4,528	–	633	–	–	–	–	–	6,462	**11,623**
Long-term loans of banks	9,840	21,690	–	–	7,380	–	–	–	34,439	**73,349**
Long-term securities issued	151,434	–	90,967	30,127	–	–	–	–	–	**272,528**
Other financial liabilities	1,805	–	–	19	–	–	–	–	39	**1,863**
Liabilities	**167,607**	**21,690**	**91,600**	**37,654**	**7,380**	**–**	**–**	**–**	**152,357**	**478,288**

Other countries include non-member countries.

(Thousands of euros)

27. Offsetting of financial instruments

The table below shows the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the consolidated statement of financial position as at 31 December 2017:

2017	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position*		*Net amount*
				Financial instruments	*Cash collateral received*	
Financial assets						
Financial assets pledged under repurchase agreements	76,723	–	76,723	(62,015)	–	**14,708**
Total	**76,723**	**–**	**76,723**	**(62,015)**	**–**	**14,708**
Financial liabilities						
Repurchase agreements	62,015	–	62,015	(62,015)	–	–
Total	**62,015**	**–**	**62,015**	**(62,015)**	**–**	**–**

The table below shows financial assets offset against financial liabilities in the consolidated statement of financial position as at 31 December 2016 as well as the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the consolidated statement of financial position:

2016	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position*		*Net amount*
				Financial instruments	*Cash collateral received*	
Financial assets						
Financial assets pledged under repurchase agreements	98,458	–	98,458	(66,069)	–	**32,389**
Total	**98,458**	**–**	**98,458**	**(66,069)**	**–**	**32,389**
Financial liabilities						
Repurchase agreements	66,069	–	66,069	(66,069)	–	–
Total	**66,069**	**–**	**66,069**	**(66,069)**	**–**	**–**

(Thousands of euros)

28. 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.

The volumes of related party transactions, outstanding balances at the year end, and related expenses and income for 2017 and 2016 are as follows:

	Related party	*31 December 2017 Carrying amount*	*31 December 2016 Carrying amount*
Consolidated statement of financial position			
Current customer accounts	Key management personnel	1,420	1,783
Other liabilities	Key management personnel	593	416

	Related party	*2017 Income/(expense)*	*2016 Income/(expense)*
Consolidated income statement			
Interest expenses on current customer accounts	Key management personnel	(52)	(61)
Net interest expenses after allowance for impairment of loans		**(52)**	**(61)**
Expenses from operating activities		**(52)**	**(61)**
Employee benefits	Key management personnel	(1,398)	(1,365)
Compensation for travel expenses and medical insurance	Key management personnel	(32)	(55)
Operating expenses		**(1,430)**	**(1,420)**
Net loss for the year		**(1,482)**	**(1,481)**

29. Changes in liabilities arising from financing activities

	Note	*Debt securities issued*	*Long-term loans of banks*	*Total liabilities arising from financing activities*
Carrying amount at 31 December 2015		**212,724**	**44,187**	**256,911**
Additions		67,398	60,000	**127,398**
Repayment		(43,910)	(29,569)	**(73,479)**
Interest paid		(23,493)	(2,831)	**(26,324)**
Translation differences		37,380	(277)	**37,103**
Non-cash transactions		(82)	–	**(82)**
Interest accrued		22,511	1,839	**24,350**
Carrying amount at 31 December 2016		**272,528**	**73,349**	**345,877**
Additions		348,661	36,185	**384,846**
Repayment		(88,290)	(13,451)	**(101,741)**
Interest paid		(24,522)	(1,690)	**(26,212)**
Translation differences		(26,095)	(1,178)	**(27,273)**
Non-cash transactions		(920)	–	**(920)**
Interest accrued		27,851	2,377	**30,228**
Carrying amount at 31 December 2017		**509,213**	**95,592**	**604,805**

Translation differences represent a daily revaluation of liabilities denominated in a currency other than the euro. The Group uses derivatives to mitigate the currency risks (Note 7).

(Thousands of euros)

30. Capital adequacy

Capital adequacy ratio is the most important financial indicator characterizing credibility of credit institutions and is estimated as the ratio of capital base to risk-weighted assets expressed as a percentage. Approval of the capital adequacy ratio is the sole power of the Bank's Council.

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 31 December 2017, this minimum level was 8% (2016: 8%).

Besides, taking into account the Bank's status as the multilateral development institution and the structure of the Bank's member countries and respective decision of the Council, the capital adequacy ratio was set at the level of not less than 25% as at 31 December 2017 (2016: 25%).

The following table shows the composition of the Group's capital position computed in accordance with the Basel Accord (Basel II) as at 31 December 2017 and 31 December 2016.

	2017	*2016*
Capital		
Tier 1 capital	380,745	378,034
Tier 2 capital	13,988	11,439
Total regulatory capital	**394,733**	**389,473**
Risk-weighted assets		
Credit risk	822,189	482,693
Market risk	177,273	186,588
Operational risk	43,411	57,999
Total risk-weighted assets	**1,042,873**	**727,280**
Total capital expressed as a percentage of risk-weighted assets, % ("capital adequacy ratio")	37.85%	53.55%
Total tier 1 capital expressed as a percentage of risk-weighted assets, % ("tier-1 capital adequacy ratio")	36.51%	51.98%

(The end)

Report on Review of Interim Financial Information of
International Investment Bank
for the six months ended 30 June 2017

July 2017

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Report on Review of Interim Financial Information

To Council of International Investment Bank

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of International Investment Bank and its subsidiaries, which comprise the interim consolidated statement of financial position as at 30 June 2017, 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.

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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*.

O.V. Youshenkov
Partner
Ernst & Young Vneshaudit LLC

20 July 2017

Details of the entity

Name: International Investment Bank
Bank operates on the basis of the Agreement on the Establishment of the International Investment Bank dated 10 July 1970, registered in the UN Secretariat on 1 December 1971 under No. 11417.
Address: Russia 107078, Moscow, Mashi Poryvaevoy str., 7.

Details of the auditor

Name: Ernst & Young Vneshaudit LLC
Record made in the State Register of Legal Entities on 4 February 2016, State Registration Number 1167746123478.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young Vneshaudit LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young Vneshaudit LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050953.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

(Thousands of euros)

	Note	*30 June 2017 (unaudited)*	*31 December 2016*
Assets			
Cash and cash equivalents	5	106,218	93,031
Deposits with banks and other financial institutions	6	55,341	45,337
Derivative financial assets	7	11,289	14,362
Available-for-sale investment securities	8	135,008	170,849
Available-for-sale investment securities pledged under repurchase agreements	8	98,667	98,458
Loans to banks	9	163,645	94,367
Loans to customers	10	337,166	269,036
Investment property		21,860	21,840
Property, equipment and intangible assets		71,671	71,844
Other assets	11	1,804	2,319
Total assets		**1,002,669**	**881,443**
Liabilities			
Due to banks and other financial institutions	12	108,355	118,925
Derivative financial liabilities	7	12,872	11,623
Current customer accounts		9,295	9,218
Long-term loans of banks	13	72,260	73,349
Debt securities issued	14	397,720	272,528
Other liabilities	11	9,403	5,582
Total liabilities		**609,905**	**491,225**
Equity	15		
Subscribed capital		1,300,000	1,300,000
Callable capital		(986,947)	(986,947)
Paid-in capital		**313,053**	**313,053**
Revaluation reserve for available-for-sale investment securities		(1,235)	(1,506)
Revaluation reserve for property and equipment		12,945	12,945
Foreign currency translation reserve		(69)	(57)
Retained earnings less net income for the period		65,783	64,981
Net income for the period		2,287	802
Total equity		**392,764**	**390,218**
Total equity and liabilities		**1,002,669**	**881,443**

Signed and authorized for release on behalf of the Board of the Group

Denis Ivanov Acting Chairman of the Board

Elena Minduksheva Acting Head of the Financial Department

20 July 2017

The accompanying notes 1-24 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2017

(Thousands of euros)

		For the six months ended 30 June (unaudited)	
	Note	*2017*	*2016*
Interest income	18	16,147	16,237
Interest expense	18	(14,364)	(13,184)
Net interest income		**1,783**	**3,053**
Allowance for loan impairment	9, 10	(3,781)	89
Net interest (expense)/income after allowance for loan impairment		**(1,998)**	**3,142**
Fee and commission income		302	525
Fee and commission expense		(71)	(66)
Net fee and commission income		**231**	**459**
Net (losses)/gains from revaluation of derivative financial instruments		(4,591)	14,198
Net gains from revaluation of hedging instruments		65	–
Net gains from dealing in foreign currencies and operations with derivatives		12,520	11,026
Net losses from revaluation of assets and liabilities in foreign currencies		(944)	(21,046)
Net gains from available-for-sale investment securities		4,553	3,186
Income from lease of investment property	17	2,049	1,782
Other income		85	627
Net non-interest income		**13,737**	**9,773**
Operating income		**11,970**	**13,374**
Reversal of allowance for impairment of other assets	11	27	14
General and administrative expenses	19	(9,061)	(8,174)
Other expenses		(649)	(184)
Operating expenses		**(9,683)**	**(8,344)**
Net income for the period		**2,287**	**5,030**

The accompanying notes 1-24 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

(Thousands of euros)

	Note	*For the six months ended 30 June (unaudited)* 2017	2016
Net income for the period		**2,287**	**5,030**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Change in unrealized revaluation of available-for-sale investment securities	15	271	2,215
Translation differences		(12)	36
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**259**	**2,251**
Other comprehensive income		**259**	**2,251**
Total income for the period		**2,546**	**7,281**

The accompanying notes 1-24 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

(Thousands of euros)

	Subscribed capital	*Callable capital*	*Revaluation reserve for available-for-sale investment securities*	*Revaluation reserve for property and equipment*	*Foreign currency translation reserve*	*Retained earnings*	*Total equity*
At 31 December 2015	**1,300,000**	**(996,947)**	**(1,664)**	**31,453**	**(120)**	**64,981**	**397,703**
Profit for the period	–	–	–	–	–	5,030	**5,030**
Other comprehensive income for the period	–	–	2,215	–	36	–	**2,251**
Total comprehensive income	**–**	**–**	**2,215**	**–**	**36**	**5,030**	**7,281**
Contributions to capital (Note 15)	–	10,000	–	–	–	–	**10,000**
At 30 June 2016 (unaudited)	**1,300,000**	**(986,947)**	**551**	**31,453**	**(84)**	**70,011**	**414,984**
At 31 December 2016	**1,300,000**	**(986,947)**	**(1,506)**	**12,945**	**(57)**	**65,783**	**390,218**
Profit for the period	–	–	–	–	–	2,287	**2,287**
Other comprehensive income/(loss) for the period	–	–	271	–	(12)	–	**259**
Total comprehensive income/(loss)	**–**	**–**	**271**	**–**	**(12)**	**2,287**	**2,546**
At 30 June 2017 (unaudited)	**1,300,000**	**(986,947)**	**(1,235)**	**12,945**	**(69)**	**68,070**	**392,764**

The accompanying notes 1-24 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

(Thousands of euros)

	Note	*For the six months ended 30 June (unaudited)* 2017	2016
Cash flows from operating activities			
Interest, fees and commissions received		11,641	11,602
Interest, fees and commissions paid		(2,097)	(1,521)
Realized gains less losses from dealing in foreign currencies and operations with derivatives		13,051	11,053
Cash flows from lease of investment property		2,049	1,782
General and administrative expenses		(7,364)	(4,498)
Other operating (expenses)/income from banking operations		(59)	5
Cash flows from operating activities before changes in operating assets and liabilities		**17,221**	**18,423**
Net (increase)/decrease in operating assets			
Due to banks and other financial institutions		(17,053)	29,022
Loans to banks		(69,609)	16,642
Loans to customers		(82,012)	(129,716)
Other assets		620	(501)
Net (decrease)/increase in operating liabilities			
Deposits from banks and other financial institutions		(4,037)	58,519
Current customer accounts		(543)	2,211
Other liabilities		4,397	227
Net cash flows from operating activities		**(151,016)**	**(5,173)**
Cash flows from investing activities			
Interest received		2,935	7,714
Purchase of available-for-sale investment securities		(193,404)	(308,150)
Proceeds from sale and redemption of available-for-sale investment securities		227,954	267,412
Proceeds from redemption of held-to-maturity securities		–	3,478
Investments in investment property		(20)	–
Purchase of property, equipment and intangible assets		(836)	(757)
Proceeds from sale of property, equipment and intangible assets		3	–
Net cash flows from investing activities		**36,632**	**(30,303)**
Cash flows from financing activities			
Interest paid		(10,533)	(10,978)
Long-term interbank financing raised		13,000	60,000
Long-term interbank financing repaid		(13,451)	(29,569)
Placement of bonds		205,194	–
Redemption and repurchase of bonds		(62,858)	–
Contributions to capital		–	10,000
Net cash flows from financing activities		**131,352**	**29,453**
Effect of exchange rate changes on cash and cash equivalents		(3,781)	623
Net decrease in cash and cash equivalents		**13,187**	**(5,400)**
Cash and cash equivalents, beginning		**93,031**	**59,519**
Cash and cash equivalents, ending	5	**106,218**	**54,119**

The accompanying notes 1-24 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 its subsidiary. The Bank and its subsidiary are hereinafter collectively referred to as the "Group". The International Investment Bank is the parent company of the Group. The Bank's subsidiary 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 on the Establishment of the International Investment Bank (the "Agreement") and the Statutes. The Agreement was ratified by the member countries of the Bank and registered with the Secretariat of the United Nations in December 1971. The Bank is primarily engaged in commercial lending for the benefit of national investment projects in the member countries of the Group and for other purposes defined by the Council of the Bank. The Group also performs transactions with securities and foreign currency. The Group operates from its office at 7 Mashi Poryvaevoi St., Moscow, Russia, and the European regional office in Bratislava (Eurovea Central 1, Pribinova 4, Bratislava, 81109, Slovak Republic).

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, the International Investment Bank is not subject to the restrictive measures.

The Bank continues to expand its operations despite the ongoing market volatility in member countries:

- The Banks winds up the introduction of changes to its constituent documents and implementation of the three-level corporate governance structure. The Protocol on Introducing Changes to the Agreement on the Establishment of the International Investment Bank and the Statutes (hereinafter, the "Protocol") signed at the end of 2015 is at the stage of ratification (internal state procedures) by member countries of the Bank. The Protocol will enter into force upon completion of those ratification procedures. As at 30 June 2017, the Protocol was ratified by Hungary, Vietnam, Romania, Bulgaria, Russia and Cuba (6 countries out of 9).
- At the 107th meeting of the Bank's Council (Bucharest, Romania, June 2017), member countries unanimously approved the Bank's mid-term development strategy for 2018-2022.
- In May 2017, Moody's Investors Service upgraded its outlook on the Bank's credit rating from stable to positive and confirmed its issuer credit rating and debt rating at Baa1. Also, the Bank is assigned the following investment grade ratings: BBB with a stable outlook by Standard & Poor's; BBB with a stable outlook by Fitch Ratings (upgraded in December 2016); A (stable outlook) by Dagong Global Credit Rating.
- The Group entered capital markets in Western Europe for the first time in April 2017 with a debut issue of SSD debentures (Schuldscheindarlehen) – a traditional loan instrument of the German market.
- In 2017, the Bank's trade financing program was recognized the best among other IFOs' programs by Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), and the Bank was the winner of ADFIAP Awards 2017 in the Trade Development category.
- The Bank and chambers of commerce and industry (the "CCIs") of the member countries signed a multilateral Memorandum on Cooperation at an international business forum timed to coincide with the 107th meeting of the Bank's Council (Bucharest, Romania). The Memorandum established a framework for creating a "Project Exchange", i.e. an integration platform under the aegis of the Bank aimed at facilitating development of investment activity both in member countries and in other countries. For this purpose, CCIs of other interested countries can also accede to the Memorandum in accordance with its provisions.

(Thousands of euros)

1. Principal activities (continued)

Member countries of the Bank

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

Member countries	*30 June 2017, % (unaudited)*	*31 December 2016, %*
Russian Federation	47.923	47.923
Republic of Bulgaria	13.481	13.481
Hungary	12.777	12.777
Czech Republic	9.703	9.703
Slovak Republic	6.862	6.862
Romania	5.895	5.895
Republic of Cuba	1.713	1.713
Socialist Republic of Vietnam	1.172	1.172
Mongolia	0.474	0.474
	100.000	**100.000**

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

In its member countries, the Bank is not subject to taxation and enjoys all 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 2017 in accordance with International Financial Reporting Standard ("IFRS") IAS 34, *Interim Financial Reporting*.

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 2016.

Subsidiary

The Bank is a parent company of the Group, which owns CJSC IIB Capital (a 100% subsidiary established in 2012 to deal with issues related to the Group's activities in Russia, in particular, for the property trust of the Group) as at 30 June 2017. The share capital of the subsidiary is RUB 44.5 thousand (EUR 1.1 thousand at the exchange rate effective at the date of incorporation).

(Thousands of euros)

2. Basis of preparation (continued)

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, available-for-sale financial instruments also stated at fair value, and buildings in the property and equipment and investment property are stated at revalued amounts.

Functional and presentation currency

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 euros ("thousands of euros" or "EUR thousand"), unless otherwise indicated.

3. 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 2016, except for the adoption of new standards effective as at 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and effect of these changes are disclosed below. Although these new standards and amendments were applied for the first time in 2017, they do not have a material effect on the interim condensed consolidated financial statements of the Group. The nature and the impact of each new standard or amendment are described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. The Group is not required to provide additional disclosures in its condensed interim consolidated financial statements, but will disclose additional information in its annual consolidated financial statements for the year ended 31 December 2017.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

The Bank is not subject to taxation, therefore application of these amendments has no effect on the Group's financial position and performance.

(Thousands of euros)

3. Changes in accounting policies (continued)

Annual improvements cycle – 2014-2016

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The amendment has no effect on the Group's interim condensed consolidated financial statements.

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 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 and are based on the management experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Assumptions and estimates adopted by management of the Group in the process of applying the accounting policies are consistent with those described in the consolidated financial statements for the year ended 31 December 2016.

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 – Available-for-sale investment securities.
- Note 9 – Loans to banks.
- Note 10 – Loans to customers.
- Note 16 – Contingencies and loan commitments.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2017 (unaudited)	***31 December 2016***
Cash on hand	**236**	**104**
Nostro accounts with banks and other financial institutions:		
Credit rating from A- to A+	65,761	62,548
Credit rating from BBB- to BBB+	7,130	4,526
Credit rating from BB- to BB+	446	551
Total Nostro accounts with banks and other financial institutions	**73,337**	**67,625**
Short-term deposits with banks:		
Term deposits with banks		
Credit rating from BBB- to BBB+	10,332	–
Credit rating from BB- to BB+	–	25,302
Credit rating from B- to B+	22,313	–
Total short-term deposits with banks	**32,645**	**25,302**
Cash and cash equivalents	**106,218**	**93,031**

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

(Thousands of euros)

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:

	30 June 2017 (unaudited)	*31 December 2016*
Term deposits up to 1 year:		
Credit rating from B- to B+	47,589	37,126
Total term deposits up to 1 year	**47,589**	**37,126**
Term deposits over 1 year:		
Credit rating from A- to A+	3,072	5,821
Credit rating from BB- to BB+	4,680	2,390
Total term deposits over 1 year	**7,752**	**8,211**
Total deposits with banks and other financial institutions	**55,341**	**45,337**

Amounts due from the Central Bank of the Republic of Cuba

	30 June 2017 (unaudited)	*31 December 2016*
Term deposits with the Central Bank of the Republic of Cuba without credit rating	34,967	34,967
Less: allowance for impairment	(34,967)	(34,967)
Term deposits with the Central Bank of the Republic of Cuba	–	–

Concentration of deposits with banks and other financial institutions

As at 30 June 2017, the Group had three counterparties (31 December 2016: three) accounting for over 10% of the Group's total deposits with banks and other financial institutions, except for deposits with the Central Bank of the Republic of Cuba.

7. Derivative financial instruments

The Group performs the 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 the exchange rates or other variable factors associated with these instruments. The fair value of derivative financial instruments may vary significantly depending on the potentially favorable or unfavorable conditions.

(Thousands of euros)

7. Derivative financial instruments (continued)

The table below shows the fair value of derivative financial instruments as at 30 June 2017 and 31 December 2016 and notional amounts of term contracts for the purchase and sale of foreign currency specifying weighted average contractual exchange rates.

	30 June 2017 (unaudited)				
	Notional amount		*Weighted average exchange rate*	*Fair value*	
	Purchase	*Sale*		*Assets*	*Liabilities*
Derivative financial assets and liabilities at fair value through profit or loss					
Swaps	EUR 170,500 thousand	USD 189,376 thousand	1.11	5,322	–
	EUR 16,500 thousand	RUB 1,051,741 thousand	63.74	1,222	–
	EUR 23,278 thousand	HUF 7,160,000 thousand	307.59	111	–
	EUR 16,514 thousand	RON 75,000 thousand	0.22	13	–
	RUB 15,417,998 thousand	EUR 236,382 thousand	65.36	2,616	9,442
	RON 110,300 thousand	EUR 24,971 thousand	4.42	–	596
	RUB 3,000,000 thousand	USD 52,910 thousand	56.70	–	1,567
Forwards					
- foreign currency	EUR 34,000 thousand	USD 36,641 thousand	1.08	2,002	–
- equity securities	16,780	EUR 250 thousand	14.91	3	–
Total derivative financial assets and liabilities at fair value through profit or loss				**11,289**	**11,605**
Derivative financial assets and liabilities designated as hedging instruments					
Swaps	RON 298,300 thousand	EUR 67,068 thousand	4.45	–	1,267
Total derivative financial assets and liabilities designated as hedging instruments				**–**	**1,267**
Derivative financial instruments				**11,289**	**12,872**

(Thousands of euros)

7. Derivative financial instruments (continued)

	31 December 2016				
	Notional amount		*Weighted average*	*Fair value*	
	Purchase	*Sale*	*exchange rate*	*Assets*	*Liabilities*
Derivative financial assets and liabilities at fair value through profit or loss					
Swaps	RUB 9,136,720 thousand	EUR 132,150 thousand	69.42	14,246	883
	RON 110,300 thousand	EUR 24,971 thousand	4.44	–	632
	EUR 117,000 thousand	USD 128,825 thousand	1.10	116	5,704
	EUR 8,000 thousand	RUB 572,280 thousand	71.54	–	788
Forwards					
- foreign currency	EUR 34,000 thousand	USD 37,896 thousand	1.11	–	2,080
Total derivative financial assets and liabilities at fair value through profit or loss				**14,362**	**10,087**
Derivative financial assets and liabilities designated as hedging instruments					
Swaps	RON 298,300 thousand	EUR 67,068 thousand	4.45	–	1,536
Total derivative financial assets and liabilities designated as hedging instruments				**–**	**1,536**
Derivative financial instruments				**14,362**	**11,623**

Due to issuing debt securities denominated in currencies other than the functional currency of the Group (Note 14), the Group concluded cross currency interest rate swaps and currency forwards on an arm's length basis with large international and Russian 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 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 notional 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 2017 and 31 December 2016, 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 notional 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 rate of EUR against the currencies of transactions.

(Thousands of euros)

8. Available-for-sale investment securities

Available-for-sale investment securities comprise:

	30 June 2017 (unaudited)	*31 December 2016*
Owned by the Group		
Quoted debt securities		
Government bonds:		
Eurobonds issued by governments of member countries	13,369	52,678
Eurobonds issued by governments of other countries	17,824	–
Government bonds	**31,193**	**52,678**
Corporate bonds		
Credit rating AAA	5,029	–
Credit rating from AA- to AA+	3,525	–
Credit rating from A- to A+	20,263	21,152
Credit rating from BBB- to BBB+	19,351	21,861
Credit rating BB+	51,632	57,579
Credit rating B+	1,024	17,575
Corporate bonds	**100,824**	**118,167**
Total quoted debt securities	**132,017**	**170,845**
Quoted equity instruments		
Credit rating AA-	248	–
Credit rating A	244	–
Credit rating BBB-	2,288	–
Credit rating BB+	207	–
No credit rating	4	4
Total quoted equity instruments	**2,991**	**4**
Available-for-sale investment securities	**135,008**	**170,849**
Pledged under repurchase agreements		
Quoted debt securities		
Eurobonds issued by governments of member countries	47,849	10,286
Eurobonds issued by governments of other countries	7,625	7,597
Government bonds	**55,474**	**17,883**
Corporate bonds		
Credit rating AAA	21,031	22,486
Credit rating from AA- to AA+	4,338	4,688
Credit rating from A- to A+	13,572	32,521
Credit rating from BBB- to BBB+	–	4,994
Credit rating BB+	4,252	15,886
Corporate bonds	**43,193**	**80,575**
Total quoted available-for-sale debt securities pledged under repurchase agreements	**98,667**	**98,458**

Government bonds represent EUR-denominated, USD-denominated and RUB-denominated securities issued and guaranteed by the Ministries of Finance of these countries, maturing in 2022-2027 (31 December 2016: maturing in 2018-2027). The annual coupon rate for these bonds varies from 0.4% to 8.8% (31 December 2016: from 0.4% to 7.9%).

Corporate bonds are represented by the bonds issued by large companies and banks of member countries of the Bank, as well as corporate international companies and Development Banks that have similar goals and missions with the Group, maturing in 2018-2031 (31 December 2016: maturing in 2018-2031). The annual coupon rate for these bonds varies from 2.1% to 10.3% (31 December 2016: from 0.6% to 10.35%).

Equity securities are represented by shares and depositary receipts issued by large international and Russian companies.

(Thousands of euros)

9. Loans to banks

During 2017, the Group continued its lending activities, being guided by the key priorities of the Development Strategy of the IIB Group. The principal lending activity is to facilitate the development of small and medium-sized businesses in the member countries and participate in financing of socially important infrastructure projects in these countries. The Group considers national development institutes, export and import banks and agencies, international financial organizations and Development Banks as its key counterparties.

During the six-months ended 30 June 2017 and the year ended 31 December 2016, the Group provided trade financing loans and long-term loans to banks operating in the following countries:

	30 June 2017 (unaudited)	*31 December 2016*
Trade financing loans		
Russian Federation	29,256	953
Republic of Belarus	2,555	–
Trade financing loans	**31,811**	**953**
Long-term loans to banks		
Russian Federation	64,135	26,425
Mongolia	42,249	47,970
Socialist Republic of Vietnam	26,224	19,019
Long-term loans to banks	**132,608**	**93,414**
Total loans to banks	**164,419**	**94,367**
Less: allowance for loan impairment	(774)	–
Loans to banks	**163,645**	**94,367**

A summary of overdue loans as at 30 June 2017 and 31 December 2016 is presented below:

	30 June 2017 (unaudited)	*31 December 2016*
Loans with overdue principal and/or interest	15,478	–
Less: allowance for loan impairment	(774)	–
Overdue loans to banks	**14,704**	**–**

For the purposes of these interim condensed consolidated financial statements, a loan to banks 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 principal amount and accrued interest income.

Allowance for impairment of loans to banks

A reconciliation of the allowance for impairment of loans to banks by country is as follows:

	Russian Federation	*Total*
At 1 January 2017	–	**–**
Net charge for the period	774	**774**
At 30 June 2017 (unaudited)	**774**	**774**
Individual impairment	**774**	**774**
Gross amount of loans to banks, individually determined to be impaired, before deducting any individually assessed impairment allowance	**–**	**–**

As at 31 December 2016, there were no impaired loans and allowance for impairment was not accrued.

9. 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 2017 and 31 December 2016:

	30 June 2017 (unaudited)		*31 December 2016*	
	Loans to banks	*Share in the total loans, %*	*Loans to banks*	*Share in the total loans, %*
Pledge of the rights of claim	13,349	8.2	–	–
Pledge of real property (mortgage) and title	1,896	1.2	7,247	7.7
Uncollateralized part of the loans	148,400	90.6	87,120	92.3
Total loans to banks	**163,645**	**100.0**	**94,367**	**100.0**

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 loans to banks

As at 30 June 2017, long-term loans and trade financing loans to four banks (31 December 2016: five banks) with the total amount of loans to each of them exceeding 10% of total loans to banks were recorded on the Group's balance sheet. As at 30 June 2017, the total amount of such major loans was EUR 99,808 thousand (31 December 2016: EUR 74,787 thousand), and allowances for impairment of these loans were not made (31 December 2016: allowances were not made).

10. Loans to customers

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

	30 June 2017 (unaudited)	*31 December 2016*
Russian Federation	69,702	61,213
Republic of Bulgaria	59,774	65,922
Romania	56,602	40,235
Republic of Ecuador	36,273	39,570
Czech Republic	35,038	22,930
Republic of Panama	32,183	36,276
Hungary	22,865	–
Slovak Republic	20,016	8,411
USA	5,526	6,108
Mongolia	4,737	5,683
Gross loans to customers	**342,716**	**286,348**
Less: allowance for loan impairment	(5,550)	(17,312)
Loans to customers	**337,166**	**269,036**

A summary of overdue loans as at 30 June 2017 and 31 December 2016 is presented below:

	30 June 2017 (unaudited)	*31 December 2016*
Loans with overdue principal and/or interest	15,151	14,769
Less: allowance for loan impairment	(5,255)	(14,769)
Overdue loans to customers	**9,896**	**–**

(Thousands of euros)

10. Loans to customers (continued)

For the purposes of these interim condensed consolidated financial statements, a loan to customers 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 principal amount and accrued interest income.

Allowance for impairment of loans to customers

A reconciliation of the allowance for loan impairment by country is as follows:

	Slovak Republic	*Republic of Bulgaria*	*Romania*	*Total*
At 1 January 2017	**8,103**	**6,955**	**2,254**	**17,312**
Net charge for the period	–	6	3,001	**3,007**
Write off against previously accrued allowance	(8,103)	(6,666)	–	**(14,769)**
At 30 June 2017 (unaudited)	**–**	**295**	**5,255**	**5,550**
Individual impairment	**–**	**–**	**5,255**	**5,255**
Gross amount of loans to customers, individually determined to be impaired, before deducting any individually assessed impairment allowance	**–**	**–**	**15,151**	**15,151**

	Slovak Republic	*Republic of Bulgaria*	*Romania*	*Total*
At 1 January 2016	**3,000**	**6,755**	**–**	**9,755**
Net charge for the period	5,103	200	2,254	**7,557**
At 31 December 2016	**8,103**	**6,955**	**2,254**	**17,312**
Individual impairment	**8,103**	**6,666**	**–**	**14,769**
Gross amount of loans to customers, individually determined to be impaired, before deducting any individually assessed impairment allowance	**8,103**	**6,666**	**–**	**14,769**

The following table provides an analysis of the customer loan portfolio, net of allowance for impairment, by types of collateral as at 30 June 2017 and 31 December 2016:

	30 June 2017 (unaudited)		*31 December 2016*	
	Loans net of allowance for impairment	*Share in the total loans, %*	*Loans net of allowance for impairment*	*Share in the total loans, %*
Pledge of real property (mortgage) and title	71,732	21.3	25,811	9.6
State guarantees	67,142	19.9	75,845	28.2
Corporate guarantees	43,038	12.7	22,930	8.5
Pledge of equipment and goods in turnover	35,916	10.7	22,641	8.4
Pledge of shares	14,942	4.4	21,579	8.0
Pledge of the rights of claim	9,023	2.7	22,970	8.5
Pledge of vehicles	1,970	0.6	2,756	1.0
Uncollateralized part of the loans	93,403	27.7	74,504	27.8
Total loans to customers	**337,166**	**100.0**	**269,036**	**100.0**

(Thousands of euros)

10. Loans to customers (continued)

Analysis of collateral for loans to customers

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.

Concentration of loans to customers

As at 30 June 2017, loans to three borrowers (31 December 2016: three) with the total amount of loans to each of the three borrowers exceeding 10% of total loans to customers were recorded on the Group's balance sheet. As at 30 June 2017, these loans totaled EUR 111,004 thousand (31 December 2016: EUR 107,191 thousand) and allowances were not created (31 December 2016: no allowances).

Analysis of loans to customers by industry

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

	30 June 2017 (unaudited)	*31 December 2016*
Leasing	76,259	85,897
Metal working industry	74,733	22,930
Production and transmission of electricity	55,976	39,570
Food and beverages	26,580	27,504
Communications	22,865	–
Manufacturing of electrical equipment	21,058	20,809
Consulting services	16,221	–
Agriculture	14,308	14,295
Transport	12,499	13,752
Crude oil refining	9,998	10,002
Production of pharmaceutical products	8,044	6,645
Trade	3,862	6,036
Other	313	308
Chemical production	–	23,831
Construction	–	14,769
	342,716	**286,348**
Less: allowance for loan impairment	(5,550)	(17,312)
Loans to customers	**337,166**	**269,036**

11. Other assets and liabilities

Other assets comprise:

	30 June 2017 (unaudited)	*31 December 2016*
Financial assets		
Settlements on bank transactions	1,686	1,814
Accounts receivable on business operations	93	1,352
Guarantee payments	26	42
Other financial assets	120	136
	1,925	**3,344**
Less: allowance for impairment	(1,766)	(1,924)
Total financial assets less allowance for impairment	**159**	**1,420**
Non-financial assets		
Advances issued	791	–
Assets held for sale – property	89	89
Inventories – real estate	51	55
Other non-financial assets	714	755
Total non-financial assets	**1,645**	**899**
Total other assets	**1,804**	**2,319**

(Thousands of euros)

11. Other assets and liabilities (continued)

The movements in allowance for impairment of other financial assets are as follows:

	30 June 2017 (unaudited)	*31 December 2016*
Allowance at 1 January	**1,924**	**1,633**
Reversal for the period	(27)	(67)
Change in allowance resulting from changes in exchange rates	(131)	358
Allowance at the end of the period	**1,766**	**1,924**

Other liabilities comprise:

	30 June 2017 (unaudited)	*31 December 2016*
Financial liabilities		
Other accounts payable on bank transactions	3,140	662
Other accounts payable on business operations	679	1,182
Other financial liabilities	11	19
Total financial liabilities	**3,830**	**1,863**
Non-financial liabilities		
Settlements with employees	4,395	3,647
Other non-financial liabilities	1,178	72
Total non-financial liabilities	**5,573**	**3,719**
Total other liabilities	**9,403**	**5,582**

As at 30 June 2017, other accounts payable on bank transactions include EUR 3,000 thousand received by the Bank from one of its borrowers counting as loan repayment before its corresponding due date.

12. Deposits from banks and other financial institutions

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

	30 June 2017 (unaudited)	*31 December 2016*
Deposits from banks up to 1 year		
Term deposits from banks and other financial institutions	45,060	52,856
Total deposits from banks up to 1 year	**45,060**	**52,856**
Deposits from banks over 1 year		
Repurchase agreements	63,295	66,069
Total deposits from banks over 1 year	**63,295**	**66,069**
Total deposits from banks	**108,355**	**118,925**

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 2017, the Group has two counterparties (31 December 2016: two counterparties) accounting for over 10% of the Bank's total deposits from banks and other financial institutions in the amount of EUR 97,428 thousand (31 December 2016: EUR 111,418 thousand).

(Thousands of euros)

13. Long-term loans from banks

Long-term loans from banks comprise:

	30 June 2017 (unaudited)	*31 December 2016*
Syndicated loans	59,394	59,039
SSD debentures	12,866	–
Loans from banks	–	14,310
Total long-term loans from banks	**72,260**	**73,349**

On 6 April 2017 the Group made a debut issue of SSD debentures (Schuldscheindarlehen) on the capital market in Western Europe in the total amount of EUR 13,000 thousand.

14. Debt securities issued

Debt securities issued comprise:

	Interest rate, % p.a.	*Maturity*	*30 June 2017 (unaudited)*	*31 December 2016*
RUB-denominated bonds	0.01-11.9	2024-2027	274,458	151,516
RON-denominated bonds	3.4-4.1	2018-2019	92,602	90,885
EUR-denominated bonds	3.5	2019	30,660	30,127
Total debt securities issued			**397,720**	**272,528**

On 27 April 2017, the Group made a secondary placement of RUB-denominated bonds, series 02, in the amount of RUB 2,998.0 million (EUR 48,615 thousand) that had been repurchased under the offer. A new coupon rate of 9.5% p.a. was set. This issue provides for an offer in April 2019.

The Group redeemed RUB-denominated bonds, series 03, worth a total of RUB 3.99 billion (EUR 62,858 thousand) on 2 June 2017, as scheduled under the offer.

On 14 June 2017, the Group placed an issue of exchange-traded bonds at the Moscow Exchange under the Program to Issue Exchange-traded Bonds registered in 2016. The issue totaled RUB 10 billion (EUR 156,579 thousand); this issue provides for an offer in March 2020. The coupon rate on the bonds was set at 8.75% payable on a quarterly basis with the first coupon payment to be made on 11 September 2017.

On 27 September 2016, the Group issued RON-denominated bonds in the amount of RON 300.0 million (EUR 67,398 thousand) maturing in three years. The coupon rate on the bonds was set at 3.4% payable annually with the first coupon payment to be made on 27 September 2017.

On 31 October 2016, the Group offered to repurchase RUB-denominated bonds, series 02, and repurchased almost the total amount of those bonds (RUB 2,998.0 million, or EUR 43,327 thousand) from investors. A new coupon rate of 0.1% p.a. was set.

At the date of placement, the Group entered into cross-currency interest rate swaps for the purpose of managing currency risks (Note 7).

Among other things, the Group used the proceeds from issuance of debt instruments and placement of bonds to expand its loan portfolio.

(Thousands of euros)

15. Equity

Subscribed and paid-in capital

The Bank's subscribed capital amounts to EUR 1,300,000 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 2017, unpaid portion of the Bank's subscribed capital in the amount of EUR 986,947 thousand (31 December 2016: EUR 986,947 thousand) is the amount of contributions by the Bank's member countries which have not been made yet and the amount of unallocated equity contributions totaling EUR 175,500 thousand (31 December 2016: EUR 175,500 thousand).

On 9 March 2016, in accordance with the Memorandum of Understanding singed at the 102nd meeting of the IIB's Council (20-21 November 2014), the Government of Hungary contributed EUR 10,000 thousand to the Bank's equity.

The paid-in capital of the International Investment Bank totals EUR 313,053 thousand (31 December 2016: EUR 313,053 thousand).

Revaluation reserve for available-for-sale securities and revaluation reserve for property and equipment

The movements in the revaluation reserve for available-for-sale securities and revaluation reserve for property and equipment were as follows:

	Revaluation reserve for available-for-sale investment securities	*Revaluation reserve for property and equipment*
At 1 January 2016	**(1,664)**	**31,453**
Net unrealized gains on available-for-sale investment securities	5,401	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(3,186)	–
At 30 June 2016 (unaudited)	**551**	**31,453**
At 1 January 2017	**(1,506)**	**12,945**
Net unrealized gains on available-for-sale investment securities	4,824	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(4,553)	–
At 30 June 2017 (unaudited)	**(1,235)**	**12,945**

Revaluation reserve for available-for-sale investment securities

The revaluation reserve for available-for-sale investment securities records fair value changes of available-for-sale investments.

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.

16. Contingencies and loan commitments

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.

(Thousands of euros)

16. Contingencies and loan commitments (continued)

Legal (continued)

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.

Insurance

The Group obtained insurance coverage for 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.

Commitments and contingencies

At any time the Group has outstanding commitments to extend loans. These commitments take the form of approved loan agreements.

As at 30 June 2017 and 31 December 2016, commitments and contingencies of the Group comprised off-balance credit-related commitments, in particular undrawn loan facilities and reimbursement obligations.

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 Bank issued on behalf of banks issuing documentary letters of credit that are accepted and paid by partner foreign 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.

Off-balance credit-related commitments are presented in the table below as at 30 June 2017 and 31 December 2016.

	30 June 2017 (unaudited)	*31 December 2016*
Undrawn loan facilities	217,597	33,103
Reimbursement obligations	25,142	9,898
Guarantees issued	16,454	4,934
Total off-balance commitments	**259,193**	**47,935**

The total outstanding contractual amount of undrawn loan facilities, reimbursement obligations and guarantees issued does not necessarily represent future cash claims, as these commitments may expire or terminate without being funded.

17. Leases

Group as lessor

The Group provides its investment property for operating leases. As at 30 June 2017, the Group's non-cancellable operating lease rentals amount to EUR 3,152 thousand (31 December 2016: EUR 4,752 thousand) and will be settled within 1 to 4 years (31 December 2016: 1 to 5 years).

(Thousands of euros)

18. Interest income and interest expense

Net interest income comprises:

	30 June 2017 (unaudited)	*30 June 2016 (unaudited)*
Loans to customers	8,313	6,279
Available-for-sale investment securities	3,120	1,705
Long-term loans to banks	2,906	3,398
Deposits with banks and other financial institutions, including cash and cash equivalents	1,637	2,092
Trade financing loans to banks	171	–
Held-to-maturity investment securities	–	2,763
Interest income	**16,147**	**16,237**
Debt securities issued	(11,932)	(10,833)
Long-term loans from banks	(1,235)	(632)
Funds raised under repurchase agreements	(971)	(904)
Current customer accounts	(120)	(179)
Correspondent accounts and deposits from banks and other financial institutions	(103)	(597)
Other	(3)	(39)
Interest expense	**(14,364)**	**(13,184)**
Net interest income	**1,783**	**3,053**

Interest income accrued on impaired loans issued for the six months of 2017 amounted to EUR 122 thousand (for the six months of 2016: EUR 0).

19. General and administrative expenses

General and administrative expenses comprise:

	30 June 2017 (unaudited)	*30 June 2016 (unaudited)*
Employee compensations and employment taxes	6,544	5,864
Depreciation of property and equipment and amortization of intangible assets	1,005	870
IT-expenses, inventory and occupancy expenses	845	731
Expenses related to business travel, representative and accommodation expenses	292	279
Professional fees	124	194
Other	251	236
General and administrative expenses	**9,061**	**8,174**

20. Risk management

Risk management framework

The Group's risk management policy is based on the conservative approach and is mainly aimed at mitigation of 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 approach assumes that the Group does not enter into potential transactions with high or undeterminable risk level, regardless of profitability.

(Thousands of euros)

20. Risk management (continued)

Risk management framework (continued)

The Group's risk management activities are intended to:

- Identify, analyze and manage risks faced by the Group.
- Establish ratios and limits that restrict 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 the professional risk management for the bank transactions.

Risk management policies and procedures are reviewed regularly to reflect changing situation on the 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 the evaluating, assuming, and controlling risks ("Three lines of defense"):

- Risk-taking (1st line of defense): the Group's divisions directly preparing and conducting transactions, 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 (2nd 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 (3rd line of defense): independent quality assessment for existing risk management processes, identification of violations, and proposals for the improvement of the risk management system.

The Group's operations are managed taking into account the level of the risk appetite approved by the Council and integrated into a system of limits and restrictions insuring the acceptable level of risk for aggregated positions, transparent distribution of 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 discharged them in an untimely fashion or not in full. Credit risk arises principally from loans and advances to customers and other banks and other on and off balance sheet credit exposures. For risk reporting purposes, the Group considers and consolidates all elements of credit risk exposures such as consolidated borrower or counterparty default risk.

The credit quality assessment of assets is based on the qualitative and quantitative assessment of credit risk.

Deposit contracts with banks and other financial institutions are concluded with counterparties with acceptable credit ratings assigned by such internationally recognized rating agencies as Standard & Poor's, Fitch and Moody's.

(Thousands of euros)

20. Risk management (continued)

Credit risk (continued)

Assessment of credit quality of loans is based on a 5 grade system of risk factor categories: standard, sub-standard, doubtful, impaired and uncollectible. The risk factor category is assigned on the basis of the assessment of the customer's financial position, payment discipline, credit history, compliance with 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.

The following table provides information on the credit quality of long-term loans to banks and trade financing loans (Note 9) and loans to customers (Note 10) as at 30 June 2017 and 31 December 2016:

30 June 2017 (unaudited)	*Loan amount*	*Allowance for impairment*	*Loan amount, including impairment*	*Impairment to loan amount ratio, %*
Trade financing loans to banks without any signs of impairment identified				
Standard loans				
- *Russian Federation*	29,256	–	29,256	–
- *Republic of Belarus*	2,555	–	2,555	–
Long-term loans to banks without any signs of impairment identified				
Standard loans				
- *Russian Federation*	48,657	–	48,657	–
- *Mongolia*	42,249	–	42,249	–
- *Socialist Republic of Vietnam*	26,224	–	26,224	–
Watch list loans				
- *Russian Federation*	15,478	(774)	14,704	5.0
	164,419	**(774)**	**163,645**	**0.5**
Loans to customers without any signs of impairment identified				
Standard loans				
- *Russian Federation*	69,702	–	69,702	–
- *Republic of Bulgaria*	53,867	–	53,867	–
- *Romania*	41,451	–	41,451	–
- *Republic of Ecuador*	36,273	–	36,273	–
- *Czech Republic*	35,038	–	35,038	–
- *Republic of Panama*	32,183	–	32,183	–
- *Hungary*	22,865	–	22,865	–
- *Slovak Republic*	20,016	–	20,016	–
- *USA*	5,526	–	5,526	–
- *Mongolia*	4,737	–	4,737	–
Renegotiated loans				
- *Republic of Bulgaria*	5,907	(295)	5,612	5.0
Impaired loans				
- *Romania*	15,151	(5,255)	9,896	34.7
	342,716	**(5,550)**	**337,166**	**1.6**
Total loans	**507,135**	**(6,324)**	**500,811**	**1.2**

(Thousands of euros)

20. Risk management (continued)

Credit risk (continued)

31 December 2016	*Loan amount*	*Allowance for impairment*	*Loan amount, including impairment*	*Impairment to loan amount ratio, %*
Trade financing loans to banks without any signs of impairment identified				
Standard loans				
- *Russian Federation*	953	–	953	–
Long-term loans to banks without any signs of impairment identified				
Standard loans				
- *Mongolia*	47,970	–	47,970	–
- *Russian Federation*	26,425	–	26,425	–
- *Socialist Republic of Vietnam*	19,019	–	19,019	–
	94,367	**–**	**94,367**	**–**
Loans to customers without any signs of impairment identified				
Standard loans				
- *Russian Federation*	61,213	–	61,213	–
- *Republic of Bulgaria*	53,477	–	53,477	–
- *Republic of Ecuador*	39,570	–	39,570	–
- *Republic of Panama*	36,276	–	36,276	–
- *Romania*	25,205	–	25,205	–
- *Czech Republic*	22,930	–	22,930	–
- *USA*	6,108	–	6,108	–
- *Mongolia*	5,683	–	5,683	–
- *Slovak Republic*	308	–	308	–
Watch list loans				
- *Romania*	15,030	(2,254)	12,776	15.0
Renegotiated loans				
- *Republic of Bulgaria*	5,779	(289)	5,490	5.0
Impaired loans				
- *Slovak Republic*	8,103	(8,103)	–	100
- *Republic of Bulgaria*	6,666	(6,666)	–	100
	286,348	**(17,312)**	**269,036**	**6.0**
Total loans	**380,715**	**(17,312)**	**363,403**	**4.5**

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Renegotiated loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual impairment assessment, calculated using the loan's original effective interest rate.

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

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 the IIB's Liquidity Position Management that enables the development of the liquidity position management function provided for by the IIB's Assets and Liabilities Management Policy, as an integral part of general function of the Group's management.

(Thousands of euros)

20. Risk management (continued)

Liquidity risk (continued)

Decision making matrix related to liquidity management includes a strategic level of liquidity management (the Council), tactical level (the Board and special-purpose committees) and operational level (responsible structural divisions). Asset and Liability Management Department (DUAP or ALM Unit) became responsible for organizing and aligning management of the Group's liquidity position. The Group manages its liquidity position in accordance with planning horizons (up to 6 months) and possible scenarios of movements in liquidity position (stable, stressed).

Main instrument of liquidity position management under the stable scenario is a Plan of Cash Flows defining the cash flow by balance sheet products/instruments and taking into account the plan of future financial operations. The Group determines the balance sheet gaps, payment schedule and need in financing of future operations based on the Plan of Cash Flows. As a result of application of these instruments, DUAP issues appropriate recommendations to responsible structural divisions.

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 liquidity shortage that is critical to the Group's solvency.

The liquidity buffer is formed primarily by liquidity reverses, namely securities recognized on the Group's balance sheet and included in the Lombard lists of the European Central Bank and 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 six monthly reporting dates (forecast). Liquidity buffer may be used to close the negative net position. As at 30 June 2017, the liquidity buffer amounts to EUR 93.7 million (31 December 2016: EUR 75.9 million).

The table below shows the contractual expiry by maturity of the Group's off-balance credit-related commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

	30 June 2017 (unaudited)	*31 December 2016*
Less than 1 month	113,882	33,213
1 to 3 months	10,681	3,650
3 months to 1 year	89,712	6,138
1 to 5 years	44,918	4,934
Off-balance credit-related commitments	**259,193**	**47,935**

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(Thousands of euros)

20. 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 available-for-sale debt securities were included in “Less than 1 month” category as they are highly liquid investment securities, which the Group may sell in the short-term on the arm-length basis. Available-for-sale investment securities pledged under repurchase agreements are presented on the basis of periods from the reporting date to the expiry date of respective contractual obligations of the Group.

	30 June 2017 (unaudited)								*31 December 2016*						
	Less than 1 month	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*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*
Assets															
Cash and cash equivalents	83,831	22,387	–	–	–	–	–	**106,218**	93,031	–	–	–	–	–	**93,031**
Deposits with banks and other financial institutions	29,499	–	19,742	6,100	–	–	–	**55,341**	14,254	–	27,472	3,611	–	–	**45,337**
Derivative financial instruments	6,264	1,294	3,715	16	–	–	–	**11,289**	–	116	14,246	–	–	–	**14,362**
Available-for-sale investment securities	132,018	84	32,449	66,133	–	2,991	–	**233,675**	170,849	379	502	97,577	–	–	**269,307**
Loans to banks	885	9,398	78,900	57,943	1,815	–	14,704	**163,645**	–	3,059	16,638	71,051	3,619	–	**94,367**
Loans to customers	51,578	10,468	47,233	134,126	83,865	–	9,896	**337,166**	2,066	10,139	59,833	133,047	63,951	–	**269,036**
Other financial assets	67	23	69	–	–	–	–	**159**	166	123	381	750	–	–	**1,420**
Total assets	**304,142**	**43,654**	**182,108**	**264,318**	**85,680**	**2,991**	**24,600**	**907,493**	**280,366**	**13,816**	**119,072**	**306,036**	**67,570**	**–**	**786,860**
Liabilities															
Deposits from banks and other financial institutions	(40,351)	–	(38,193)	(29,811)	–	–	–	**(108,355)**	(48,558)	–	–	(70,367)	–	–	**(118,925)**
Current customer accounts	(9,295)	–	–	–	–	–	–	**(9,295)**	(9,218)	–	–	–	–	–	**(9,218)**
Derivative financial instruments	–	–	–	(12,872)	–	–	–	**(12,872)**	(2,080)	–	(1,671)	(7,872)	–	–	**(11,623)**
Long-term loans from banks	–	–	(59,459)	(5,933)	(6,868)	–	–	**(72,260)**	–	–	(14,345)	(59,004)	–	–	**(73,349)**
Debt securities issued	–	(2,258)	(84,094)	(311,368)	–	–	–	**(397,720)**	–	–	(152,484)	(120,044)	–	–	**(272,528)**
Other financial liabilities	(3,039)	–	(780)	(11)	–	–	–	**(3,830)**	(348)	–	(933)	(582)	–	–	**(1,863)**
Total liabilities	**(52,685)**	**(2,258)**	**(182,526)**	**(359,995)**	**(6,868)**	**–**	**–**	**(604,332)**	**(60,204)**	**–**	**(169,433)**	**(257,869)**	**–**	**–**	**(487,506)**
Net position	**251,457**	**41,396**	**(418)**	**(95,677)**	**78,812**	**2,991**	**24,600**	**303,161**	**220,162**	**13,816**	**(50,361)**	**48,167**	**67,570**	**–**	**299,354**
Accumulated net position	**251,457**	**292,853**	**292,435**	**196,758**	**275,570**	**278,561**	**303,161**		**220,162**	**233,978**	**183,617**	**231,784**	**299,354**	**299,354**	

(Thousands of euros)

20. Risk management (continued)

Market risk

Market risk is the risk that the Group shall incur losses due to adverse fluctuations in 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.

Currency 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 the 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 metals or a portfolio, which shall not be exceeded at a given confidence level and over a specified time horizon.

The Group assumes 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 currency position of the Group is carried out for major currencies and financial instruments of the Group attributable to a securities portfolio.

At 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.

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 above-mentioned risks, the Group carries out regular testing (back-testing) based on historical data, which allows evaluating the compliance of risk assessment model with the actual market situation.

As at 30 June 2017 and 31 December 2016, final data on value at risk assessment (VaR) in relation to currency and price risks assumed by the Group are represented as follows:

	30 June 2017 (unaudited)	***31 December 2016***
Fixed income securities price risk	1,870	2,325
Price risk on equity securities	256	–
Currency risk	59	27

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 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.
- 10-day time horizon implies the entire Group's position over this period could have been closed or hedged. Results of 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)

20. Risk management (continued)

Market risk (continued)

The Group has assets and liabilities denominated in several foreign currencies. The Bank's financial position and cash flows are exposed to the effects of fluctuations in the prevailing 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 2017 and 31 December 2016 is presented below:

	30 June 2017 (unaudited)					*31 December 2016*				
	EUR	*USD*	*RUB*	*Other currencies*	*Total*	*EUR*	*USD*	*RUB*	*Other currencies*	*Total*
Non-derivative financial Assets										
Cash and cash equivalents	72,388	21,768	11,173	889	**106,218**	66,125	19,969	6,778	159	**93,031**
Deposits with banks and other financial institutions	55,341	–	–	–	**55,341**	40,568	4,769	–	–	**45,337**
Available-for-sale investment securities	139,134	90,123	4,418	–	**233,675**	208,628	53,070	7,609	–	**269,307**
Loans to banks	98,126	65,519	–	–	**163,645**	53,574	40,793	–	–	**94,367**
Loans to customers	197,952	100,127	–	39,087	**337,166**	131,906	137,130	–	–	**269,036**
Other financial assets	72	1	84	2	**159**	225	14	927	254	**1,420**
Total non-derivative financial assets	**563,013**	**277,538**	**15,675**	**39,978**	**896,204**	**501,026**	**255,745**	**15,314**	**413**	**772,498**
Liabilities										
Deposits from banks and other financial institutions	(77,739)	(30,616)	–	–	**(108,355)**	(36,981)	(81,944)	–	–	**(118,925)**
Current customer accounts	(9,177)	(118)	–	–	**(9,295)**	(9,089)	(129)	–	–	**(9,218)**
Long-term loans from banks	(72,260)	–	–	–	**(72,260)**	(59,039)	(14,310)	–	–	**(73,349)**
Debt securities issued	(30,660)	–	(274,458)	(92,602)	**(397,720)**	(30,046)	–	(151,515)	(90,967)	**(272,528)**
Other financial liabilities	(3,112)	(30)	(572)	(116)	**(3,830)**	(529)	(49)	(1,106)	(179)	**(1,863)**
Total non-derivative financial liabilities	**(192,948)**	**(30,764)**	**(275,030)**	**(92,718)**	**(591,460)**	**(135,684)**	**(96,432)**	**(152,621)**	**(91,146)**	**(475,883)**
Net balance sheet position (excluding derivative financial instruments)	**370,065**	**246,774**	**(259,355)**	**(52,740)**	**304,744**	**365,342**	**159,313**	**(137,307)**	**(90,733)**	**296,615**
Derivative financial instruments										
Claims	227,181	–	281,409	91,542	**600,132**	125,117	–	145,832	90,318	**361,267**
Liabilities	(330,385)	(216,365)	(15,278)	(39,687)	**(601,715)**	(224,955)	(124,785)	(8,788)	–	**(358,528)**
Net balance sheet position including derivative financial instruments	**266,861**	**30,409**	**6,776**	**(885)**	**303,161**	**265,504**	**34,528**	**(263)**	**(415)**	**299,354**

(Thousands of euros)

21. Fair value measurement

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, judgment is necessarily required to interpret market data to determine the estimated 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 which use inputs, which have a significant effect on the recorded 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 the nature, characteristics and risks of the asset or liability, and the level of the fair value hierarchy.

	Level 1 30 June 2017 (unaudited)	*Level 2 30 June 2017 (unaudited)*	*Level 3 30 June 2017 (unaudited)*	*Total 30 June 2017 (unaudited)*
Assets measured at fair value				
Derivative financial assets	–	11,289	–	**11,289**
Government bonds of countries	86,667	–	–	**86,667**
Corporate bonds	139,599	4,418	–	**144,017**
Quoted equity instruments	2,987	4	–	**2,991**
Investment property	–	–	21,860	**21,860**
Property and equipment – buildings	–	–	67,158	**67,158**
Liabilities measured at fair value				
Derivative financial liabilities	–	12,872	–	**12,872**
Assets for which fair values are disclosed				
Cash and cash equivalents	236	105,982	–	**106,218**
Deposits with banks and other financial institutions	–	–	55,341	**55,341**
Loans to banks	–	–	162,267	**162,267**
Loans to customers	–	–	338,052	**338,052**
Liabilities for which fair values are disclosed				
Deposits from banks and other financial institutions	–	–	108,355	**108,355**
Current customer accounts	–	–	9,295	**9,295**
Long-term loans from banks	–	–	72,260	**72,260**
Debt securities issued	–	403,323	–	**403,323**

(Thousands of euros)

21. Fair value measurement (continued)

Fair value hierarchy (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2016:

	Level 1 31 December 2016	*Level 2 31 December 2016*	*Level 3 31 December 2016*	*Total 31 December 2016*
Assets measured at fair value				
Derivative financial assets	–	14,362	–	**14,362**
Government bonds of countries	70,561	–	–	**70,561**
Corporate bonds	194,003	4,739	–	**198,742**
Quoted equity instruments	–	4	–	**4**
Investment property	–	–	21,840	**21,840**
Property and equipment – buildings	–	–	67,527	**67,527**
Liabilities measured at fair value				
Derivative financial liabilities	–	11,623	–	**11,623**
Assets for which fair values are disclosed				
Cash and cash equivalents	104	92,927	–	**93,031**
Deposits with banks and other financial institutions	–	–	45,337	**45,337**
Loans to banks	–	–	88,558	**88,558**
Loans to customers	–	–	270,243	**270,243**
Liabilities for which fair values are disclosed				
Deposits from banks and other financial institutions	–	–	118,925	**118,925**
Current customer accounts	–	–	9,218	**9,218**
Long-term loans from banks	–	–	73,349	**73,349**
Debt securities issued	–	279,181	–	**279,181**

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 carried in the interim condensed consolidated financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying amount 30 June 2017 (unaudited)	*Fair value 30 June 2017 (unaudited)*	*Unrecognized gain/(loss) 30 June 2017 (unaudited)*	*Carrying amount 31 December 2016*	*Fair value 31 December 2016*	*Unrecognized gain/(loss) 31 December 2016*
Financial assets						
Cash and cash equivalents	106,218	106,218	–	93,031	93,031	–
Deposits with banks and other financial institutions	55,341	55,341	–	45,337	45,337	–
Loans to banks	163,645	162,267	(1,378)	94,367	88,558	(5,809)
Loans to customers	337,166	338,052	886	269,036	270,243	1,207
Financial liabilities						
Deposits from banks and other financial institutions	108,355	108,355	–	118,925	118,925	–
Current customer accounts	9,295	9,295	–	9,218	9,218	–
Long-term loans from banks	72,260	72,260	–	73,349	73,349	–
Debt securities issued	397,720	403,323	(5,603)	272,528	279,181	(6,653)
Total unrecognized change in unrealized fair value			**(6,095)**			**(11,255)**

(Thousands of euros)

21. Fair value measurement (continued)

Methodologies and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments that are not recorded at fair value in the interim condensed consolidated financial statements.

Assets for which fair value approximates their carrying amount

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that their carrying amount approximates their fair value.

Cash and cash equivalents, deposits with banks and other financial institutions

Management has estimated that at 30 June 2017 and 31 December 2016 the fair value of deposits with banks and other financial institutions, and cash and cash equivalents was not significantly different from their respective carrying amount. This is due to the existing practice of renegotiating interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

Fixed and floating rate financial instruments

The fair values of floating interest rate instruments generally approximate their carrying amount. In case of significant changes in the market situation interest rates on loans to customers and banks, and long-term loans to banks bearing a fixed interest rate may be renegotiated. Consequently, interest rates on the financial instruments issued or received shortly before the reporting date are not significantly different from the current interest rates applicable to new instruments with similar credit risk and maturity. If the Group determines that interest rates on previously issued loans or received borrowings differ materially from those applicable to similar instruments at the reporting date, the Group estimates the fair value of these loans and borrowings. The estimate is based on the discounted cash flow method using interest rates applicable to new instruments with similar credit risk and maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty. Management has estimated that at 30 June 2017 and 31 December 2016 the fair value of deposits from banks and long-term loans from banks was not significantly different from their respective carrying amount.

22. 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, as well as financing through trade loans.
Treasury	Operations in financial markets, transactions with securities, derivative financial instruments and foreign currency, and liquidity management.
Other operations	Operational leasing services, other operations.

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(Thousands of euros)

22. Segment information (continued)

Management monitors the operating results of its business units 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:

30 June 2017 (unaudited)	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	11,390	4,738	19	**16,147**
Fee and commission income	302	–	–	**302**
Net gains from dealing in foreign currencies and operations with derivatives	–	12,520	–	**12,520**
Net gains from revaluation of hedging instruments	–	65	–	**65**
Net gains from available-for-sale investment securities	–	4,553	–	**4,553**
Income from lease of investment property	–	–	2,049	**2,049**
Reversal of allowance for impairment of other assets	–	–	27	**27**
Other segment income	2	–	83	**85**
Total income	**11,694**	**21,876**	**2,178**	**35,748**
Interest expense	(7,313)	(7,051)	–	**(14,364)**
Fee and commission expense	(9)	(60)	(2)	**(71)**
Net loss from revaluation of derivative financial instruments	–	(4,591)	–	**(4,591)**
Net (losses)/gains from revaluation of assets and liabilities in foreign currencies	–	(955)	11	**(944)**
Allowance for impairment of financial assets	(3,781)	–	–	**(3,781)**
Other segment expenses	(89)	(83)	(477)	**(649)**
Segment results	**502**	**9,136**	**1,710**	**11,348**
Other unallocated expenses				**(9,061)**
Profit for the period				**2,287**
Development portfolio	490,923	65,631	–	**556,554**
Other segment assets	9,896	340,413	95,806	**446,115**
Total segment assets	500,819	406,044	95,806	**1,002,669**
Total segment liabilities	276,007	324,495	9,403	**609,905**
Other segment information				
Capital expenditures	–	–	70	**70**

When allocating resources managed by operating segments, the Group's management identifies the "Development portfolio" assets separately based on whether the investment purpose fulfills the Group's mission. "Development portfolio" includes loans to banks and loans to customers excluding impaired loan projects and the investments in debt securities purchased upon initial placement by the issuer.

(Thousands of euros)

22. Segment information (continued)

30 June 2016 (unaudited)	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	9,677	6,560	–	**16,237**
Fee and commission income	369	–	156	**525**
Net gains from trading in foreign currencies	–	11,026	–	**11,026**
Net gains from revaluation of derivative financial instruments	–	14,198	–	**14,198**
Net gains from available-for-sale investment securities	–	3,186	–	**3,186**
Income from lease of investment property	–	–	1,782	**1,782**
Net gains from held-to-maturity investment securities	–	251	–	**251**
Reversal of allowance for impairment of financial assets	–	–	89	**89**
Reversal of allowance for impairment of other assets	–	–	14	**14**
Other segment income	102	–	274	**376**
Total income	**10,148**	**35,221**	**2,315**	**47,684**
Interest expense	(5,288)	(7,896)	–	**(13,184)**
Fee and commission expense	(2)	(60)	(4)	**(66)**
Net losses from revaluation of assets and liabilities in foreign currencies	–	(20,996)	(50)	**(21,046)**
Other segment expenses	–	–	(184)	**(184)**
Segment results	**4,858**	**6,269**	**2,077**	**13,204**
Other unallocated expenses				**(8,174)**
Profit for the period				**5,030**
Development portfolio	411,277	–	–	**411,277**
Other segment assets	5,103	403,401	101,836	**510,340**
Total segment assets	416,380	403,401	101,836	**921,617**
Total segment liabilities	141,326	361,182	4,125	**506,633**
Other segment information				
Capital expenditures	–	–	566	**566**

For the six months ended 30 June 2017, the Group's revenue from lease operations with two external counterparties (for the six months ended 30 June 2016: two counterparties) exceeded 20% of the Group's total revenue (for the six months ended 30 June 2017: EUR 1,511 thousand; for the six months ended 30 June 2016: EUR 1,443 thousand).

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 periods ended 30 June 2017 and 30 June 2016 is presented in the table below:

	30 June 2017 (unaudited)				*30 June 2016 (unaudited)*			
	Russia	*Other member countries*	*Other countries*	*Total*	*Russia*	*Other member countries*	*Other countries*	*Total*
Interest income	4,135	7,035	4,977	**16,147**	4,677	7,961	3,599	**16,237**
Income from lease of investment property	1,942	107	–	**2,049**	1,782	–	–	**1,782**
Non-current assets	79,207	14,324	–	**93,531**	100,101	–	–	**100,101**

Non-current assets include property and equipment, and investment property.

(Thousands of euros)

22. Segment information (continued)

Geographical information (continued)

Information on risk concentration by geographical region is based on geographical location of the Group's counterparties. The geographical concentration of the Group's assets and liabilities as at 30 June 2017 and 31 December 2016 is presented below:

	30 June 2017 (unaudited)									
	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Mongolia*	*Socialist Republic of Vietnam*	*Czech Republic*	*Hungary*	*Other countries*	*Total*
Assets										
Cash and cash equivalents	11,275	791	399	43	15,313	–	–	–	78,397	**106,218**
Deposits with banks and other financial institutions	4,680	–	–	–	–	–	–	–	50,661	**55,341**
Derivative financial instruments	3,577	–	–	–	–	–	–	–	7,712	**11,289**
Available-for-sale investment securities	17,336	48,971	37,875	9,974	11,293	2,076	–	1,024	105,126	**233,675**
Loans to banks less allowance for impairment	92,617	–	–	–	42,249	26,224	–	–	2,555	**163,645**
Loans to customers less allowance for impairment	69,702	59,479	51,347	20,016	4,737	–	35,038	22,865	73,982	**337,166**
Other financial assets	134	7	–	6	1	–	–	2	9	**159**
Assets	**199,321**	**109,248**	**89,621**	**30,039**	**73,593**	**28,300**	**35,038**	**23,891**	**318,442**	**907,493**
Liabilities										
Deposits from banks and other financial institutions	60	–	–	7,507	–	–	–	–	100,788	**108,355**
Derivative financial instruments	5,799	–	597	–	–	–	–	–	6,476	**12,872**
Long-term loans from banks	9,899	7,425	–	–	–	–	–	7,424	47,512	**72,260**
Debt securities issued	275,090	–	91,970	30,660	–	–	–	–	–	**397,720**
Other financial liabilities	759	–	–	11	–	–	3,000	–	60	**3,830**
Liabilities	**291,607**	**7,425**	**92,567**	**38,178**	**–**	**–**	**3,000**	**7,424**	**154,836**	**595,037**

(Thousands of euros)

22. Segment information (continued)

Geographical information (continued)

	31 December 2016									
	Russian Federation	***Republic of Bulgaria***	***Romania***	***Slovak Republic***	***Mongolia***	***Socialist Republic of Vietnam***	***Czech Republic***	***Hungary***	***Other countries***	***Total***
Assets										
Cash and cash equivalents	16,398	808	26	38	–	–	–	–	75,761	**93,031**
Deposits with banks and other financial institutions	7,159	–	–	–	–	–	–	–	38,178	**45,337**
Derivative financial instruments	2,980	–	–	–	–	–	–	–	11,382	**14,362**
Available-for-sale investment securities	44,688	49,482	36,713	10,286	3,475	–	–	–	124,663	**269,307**
Loans to banks less allowance for impairment	27,378	–	–	–	–	47,970	19,019	–	–	**94,367**
Loans to customers less allowance for impairment	61,213	58,967	37,981	308	–	5,683	–	22,930	81,954	**269,036**
Other financial assets	1,407	8	–	1	–	–	–	–	4	**1,420**
Assets	**161,223**	**109,265**	**74,720**	**10,633**	**3,475**	**53,653**	**19,019**	**22,930**	**331,942**	**786,860**
Liabilities										
Deposits from banks and other financial institutions	–	–	–	7,508	–	–	–	–	111,417	**118,925**
Derivative financial instruments	4,528	–	633	–	–	–	–	–	6,462	**11,623**
Long-term loans from banks	9,840	21,690	–	–	7,380	–	–	–	34,439	**73,349**
Debt securities issued	151,434	–	90,967	30,127	–	–	–	–	–	**272,528**
Other financial liabilities	1,805	–	–	19	–	–	–	–	39	**1,863**
Liabilities	**167,607**	**21,690**	**91,600**	**37,654**	**7,380**	**–**	**–**	**–**	**152,357**	**478,288**

Other countries include non-member countries.

(Thousands of euros)

23. Related party transactions

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 paid 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.

The volumes of related party transactions, outstanding balances as at 30 June 2017 and 31 December 2016, and related expense and income for the six months ended 30 June 2017 and 30 June 2016 are as follows:

	Related party	*30 June 2017 (unaudited)* *Carrying amount*	*31 December 2016* *Carrying amount*
Consolidated statement of financial position			
Current customer accounts	Key management personnel	1,839	1,783
Other non-financial liabilities	Key management personnel	513	416

	Related party	*30 June 2017 (unaudited)* *Income/ (expense)*	*30 June 2016 (unaudited)* *Income/ (expense)*
Consolidated income statement			
Interest expense on current customer accounts	Key management personnel	(27)	(34)
Net interest expense after allowance for loan impairment		**(27)**	**(34)**
Operating losses		**(27)**	**(34)**
Employee benefits	Key management personnel	(669)	(572)
Compensation for travel expenses and medical insurance	Key management personnel	(32)	(55)
Operating expenses		**(701)**	**(627)**
Net loss for the period		**(728)**	**(661)**

24. Capital adequacy

Capital adequacy ratio is the most important financial indicator characterizing credibility of credit institutions and is estimated as ratio of capital base to risk-weighted assets expressed as a percentage. Approval of the capital adequacy ratio is the sole power of the Bank's Council.

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 2017, this minimum level is 8% (31 December 2016: 8%).

Besides, taking into account the Bank's status as the multilateral development institution and the structure of the Bank's member countries, the capital adequacy ratio was set by the Council at the level of not less than 25% as at 30 June 2017 (31 December 2016: 25%).

(Thousands of euros)

24. Capital adequacy (continued)

The following table shows the composition of the Group's capital position computed in accordance with the Basel Accord (Basel II) as at 30 June 2017 and 31 December 2016.

	30 June 2017 (unaudited)	***31 December 2016***
Capital		
Tier 1 capital	378,836	378,034
Tier 2 capital	11,709	11,439
Total regulatory capital	**390,545**	**389,473**
Risk-weighted assets		
Credit risk	697,229	482,693
Market risk	179,730	186,588
Operational risk	48,623	57,999
Total risk weighted assets	**925,582**	**727,280**
Total capital expressed as a percentage of risk-weighted assets, % ("capital adequacy ratio")	42.19%	53.55%
Total tier 1 capital expressed as a percentage of risk-weighted assets, % ("tier 1 capital adequacy ratio")	40.93%	51.98%

(The end)

Report on Review of Interim Financial Information

International Investment Bank and its subsidiary

for the six-month period ended 30 June 2018

August 2018

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Report on Review of Interim Financial Information

To Council 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 2018, 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.

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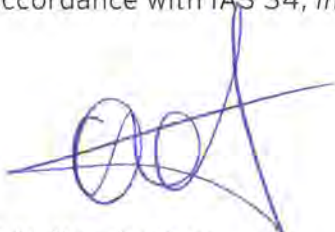
Conclusion

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*.



O.V. Youshenkov
Partner
Ernst & Young Vneshaudit LLC

3 August 2018

Details of the entity

Name: International Investment Bank
Bank operates on the basis of the Agreement on the Establishment of the International Investment Bank dated 10 July 1970, registered in the UN Secretariat on 1 December 1971 under No. 11417.
Address: Russia 107078, Moscow, Mashi Poryvaevoy str., 7.

Details of the auditor

Name: Ernst & Young Vneshaudit LLC
Record made in the State Register of Legal Entities on 4 February 2016, State Registration Number 1167746123478.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young Vneshaudit LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young Vneshaudit LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050953.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

(Thousands of euros)

	Note	*30 June 2018 (unaudited)*	*31 December 2017*
Assets			
Cash and cash equivalents	5	57,225	66,097
Deposits with banks and other financial institutions	6	34,296	45,889
Derivative financial assets	7	1,347	7,761
Available-for-sale securities	8	–	138,704
Available-for-sale securities pledged under repurchase agreements	8	–	76,723
Securities at fair value through other comprehensive income	8	174,808	–
Securities at fair value through other comprehensive income pledged under repurchase agreements	8	19,038	–
Securities at amortized cost	9	29,383	–
Securities at amortized cost pledged under repurchase agreements	9	12,039	–
Loans to banks	10	164,116	201,635
Loans to customers	11	545,627	462,514
Investment property		20,862	21,853
Property, equipment and intangible assets		71,570	72,388
Other assets	12	2,846	2,476
Total assets		**1,133,157**	**1,096,040**
Liabilities			
Due to banks and other financial institutions	14	84,941	65,511
Derivative financial liabilities	7	36,570	15,073
Current customer accounts		8,659	8,593
Long-term loans of banks	15	46,077	95,592
Debt securities issued	16	581,753	509,213
Other liabilities	12	7,555	6,396
Total liabilities		**765,555**	**700,378**
Equity	17		
Subscribed capital		1,300,000	1,300,000
Callable capital		(985,038)	(985,038)
Paid-in capital		**314,962**	**314,962**
Revaluation reserve for securities at fair value through other comprehensive income (2017: revaluation reserve for available-for-sale securities)		(4,239)	240
Revaluation reserve for property and equipment		13,748	13,748
Foreign currency translation reserve		(93)	(76)
Retained earnings less net income for the period		38,137	65,783
Net income for the period		5,087	1,005
Total equity		**367,602**	**395,662**
Total equity and liabilities		**1,133,157**	**1,096,040**

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

Nikolay Kosov Chairman of the Board

Elena Minduksheva Deputy Director of the Finance Department

3 August 2018

The accompanying notes 1-28 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED INCOME STATEMENT

Six months ended 30 June 2018

(Thousands of euros)

		For the six months ended 30 June (unaudited)	
	Note	*2018*	*2017*
Interest income calculated using the EIR method	20	21,609	16,147
Other interest income	20	7,943	8,697
Interest expenses calculated using the EIR method	20	(17,476)	(14,364)
Other interest expenses	20	(908)	(806)
Net interest income		**11,168**	**9,674**
Net reversal/(charge) of allowance for credit losses on financial instruments	5-6, 8, 10-11, 13, 18	60	(3,781)
Net interest expense after allowance for loan impairment		**11,228**	**5,893**
Fee and commission income		870	302
Fee and commission expense		(115)	(71)
Net fee and commission income		**755**	**231**
Net losses from dealing in foreign currencies and operations with derivatives	21	(1,860)	(841)
Net gains from operations with securities at fair value through profit or loss		92	–
Net gains from operations with securities at fair value through other comprehensive income		2,238	4,553
Dividend income		6	–
Income from lease of investment property	19	2,032	2,049
Other income		532	85
Net non-interest income		**3,040**	**5,846**
Operating income		**15,023**	**11,970**
Net reversal of other allowances	12, 13	2	27
General and administrative expenses	22	(8,903)	(9,061)
Cost of inventories sold		(48)	–
Other operating expenses on banking operations		(987)	(649)
Operating expenses		**(9,936)**	**(9,683)**
Net income for the period		**5,087**	**2,287**

The accompanying notes 1-28 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2018

(Thousands of euros)

	Note	For the six months ended 30 June (unaudited) 2018	2017
Net income for the period		**5,087**	**2,287**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Impact of adopting IFRS 9		(2,043)	–
Change in unrealized revaluation of securities at fair value through other comprehensive income	17	(4,737)	271
Change in the allowance for expected credit losses related to securities at fair value through other comprehensive income	8	306	–
Translation differences		(17)	(12)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**(6,491)**	**259**
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods			
Losses from revaluation of equity instruments at fair value through other comprehensive income		(48)	–
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(48)**	**–**
Other comprehensive (loss)/income		**(6,539)**	**259**
Total comprehensive (loss)/income for the period		**(1,452)**	**2,546**

The accompanying notes 1-28 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2018

(Thousands of euros)

	Subscribed capital	*Callable capital*	*Revaluation reserve for securities*	*Revaluation reserve for property and equipment*	*Foreign currency translation reserve*	*Retained earnings*	*Total equity*
At 31 December 2016	**1,300,000**	**(986,947)**	**(1,506)**	**12,945**	**(57)**	**65,783**	**390,218**
Profit for the period	–	–	–	–	–	2,287	**2,287**
Other comprehensive income/(loss) for the period	–	–	271	–	(12)	–	**259**
Total comprehensive income/(loss)	**–**	**–**	**271**	**–**	**(12)**	**2,287**	**2,546**
At 30 June 2017 (unaudited)	**1,300,000**	**(986,947)**	**(1,235)**	**12,945**	**(69)**	**68,070**	**392,764**
At 31 December 2017	**1,300,000**	**(985,038)**	**240**	**13,748**	**(76)**	**66,788**	**395,662**
Impact of adopting IFRS 9	–	–	2,043	–	–	(28,903)	**(26,860)**
Balance at 1 January 2018 restated under IFRS 9	**1,300,000**	**(985,038)**	**2,283**	**13,748**	**(76)**	**37,885**	**368,802**
Profit for the period	–	–	–	–	–	5,087	**5,087**
Other comprehensive loss for the period	–	–	(6,522)	–	(17)	–	**(6,539)**
Total comprehensive (loss)/income	**–**	**–**	**(6,522)**	**–**	**(17)**	**5,087**	**(1,452)**
Reclassification of the net change in fair value of equity instruments at derecognition	–	–	–	–	–	252	**252**
At 30 June 2018 (unaudited)	**1,300,000**	**(985,038)**	**(4,239)**	**13,748**	**(93)**	**43,224**	**367,602**

The accompanying notes 1-28 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2018

(Thousands of euros)

	Note	*For the six months ended 30 June (unaudited)* 2018	2017
Cash flows from operating activities			
Interest, fees and commissions received		30,120	22,261
Interest, fees and commissions paid		(5,226)	(6,052)
Realized gains less losses from dealing in foreign currencies and operations with derivatives		7,457	6,386
Cash flows from lease of investment property		2,032	2,049
General and administrative expenses		(7,750)	(7,364)
Other operating (expenses)/income on banking operations		(53)	(59)
Cash flows from operating activities before changes in operating assets and liabilities		**26,580**	**17,221**
Net (increase)/decrease in operating assets			
Deposits with banks and other financial institutions		20,255	(17,053)
Loans to banks		30,797	(69,609)
Loans to customers		(96,247)	(82,012)
Other assets		(280)	620
Net increase/(decrease) in operating liabilities			
Due to banks and other financial institutions		10,903	(4,037)
Current customer accounts		(570)	(543)
Other liabilities		(7,407)	4,397
Net cash flows from operating activities		**(15,969)**	**(151,016)**
Cash flows from investing activities			
Dividend income		6	–
Interest received		2,543	2,935
Purchase of securities at fair value through other comprehensive income		(189,836)	(193,404)
Proceeds from sale and redemption of securities at fair value through other comprehensive income		172,189	227,954
Proceeds from redemption of securities at amortized cost		253	–
Proceeds from sale of investment property/(investments) in investment property		1,074	(20)
Acquisition of property, equipment and intangible assets		(347)	(836)
Proceeds from sale of property, equipment and intangible assets		–	3
Net cash flows from investing activities		**(14,118)**	**36,632**
Cash flows from financing activities			
Interest paid		(12,150)	(10,533)
Long-term interbank financing raised		10,172	13,000
Long-term interbank financing repaid		(60,455)	(13,451)
Placement of debt securities issued		84,470	205,194
Redemption and repurchase of debt securities issued		–	(62,858)
Net cash flows from financing activities		**22,037**	**131,352**
Effect of exchange rate changes on cash and cash equivalents		(822)	(3,781)
Net increase/(decrease) in cash and cash equivalents		**(8,872)**	**13,187**
Cash and cash equivalents, beginning		66,097	93,031
Cash and cash equivalents, ending	5	**57,225**	**106,218**

The accompanying notes 1-28 are an integral part of these interim condensed consolidated financial statements.

(Thousands of euros)

1. Principal activities

These 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 on the Establishment of the International Investment Bank (the "Agreement") and the Statute. The Agreement was ratified by the member countries of the Bank and registered with the Secretariat of the United Nations in December 1971. 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 Council of the Bank. The Bank also performs transactions with securities and foreign currency. The Bank operates from its office at 7 Mashi Poryvaevoy St., Moscow, Russia, and the European regional office in Bratislava (Eurovea Central 1, Pribinova 4, Bratislava, 81109, Slovak Republic).

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, the 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:

- The Bank has wound up the introduction of changes to its constituent documents and implementation of the three level corporate governance structure. On 25 June 2018, the Protocol on Introducing Changes to the Agreement on the Establishment of the International Investment Bank and the Statutes (hereinafter, the "Protocol") was ratified by the last remaining member country, the Slovak Republic. Accordingly, in August 2018, the Protocol will enter into force and new IIB corporate governance bodies (Board of Governors and Board of Directors) will be set up.
- In June 2018, the city of Yaroslavl, Russian Federation, hosted the 109th Meeting of the IIB Council. It was the first Council meeting in the new strategic cycle. Member countries unanimously supported the establishment of an IIB European Unit (Budapest) – a multifunctional front office, which also will perform middle and back office functions. To implement the decision, on 18 June 2018, the Government of Hungary and the IIB signed a Memorandum of Understanding, which provides legal foundation for the cooperation between the IIB and the Government of Hungary to open the IIB European Unit in Budapest, as well as formalizes intentions of both parties to finalize until the end of the year 2018 and sign the host-country agreement for the IIB European Unit, in order for the office to start operating in full at the beginning of 2019.
- As part of the 2013 Capitalization Program, the Government of Romania decided to make an additional contribution to the IIB's paid-in capital of EUR 4 million. On 12 July 2018, the additional contribution was transferred to the Bank's correspondent account.
- In June 2018, the Council of the Bank approved key approaches to the new IIB Capitalization Program for 2018-2022 (hereinafter, the "Program"). A detailed Program will be prepared in close cooperation with the member states until the year-end and submitted for approval to the IIB Council.
- On 12 April 2018, Standard & Poor's international rating agency upgraded the IIB long-term credit rating to BBB+ with stable outlook. On 30 April 2018, Moody's Investors Services international rating agency also upgraded the IIB long-term credit rating to A3 with stable outlook. In addition, the Bank was assigned the following investment grade ratings: BBB with positive outlook (Fitch Ratings) and A with positive outlook (Dagong Global Credit Rating).
- In April-June 2018, the IIB successfully placed its first CZK-denominated issue of bonds at the Vienna and Prague Stock Exchanges. The private placement issue totaled CZK 750 million.
- In October 2018, the Bank will become a full-fledged member of the International Development Finance Club (IDFC), a network of leading national and regional development banks.

(Thousands of euros)

1. Principal activities (continued)

Member countries of the Bank

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

Member countries	*30 June 2018, % (unaudited)*	*31 December 2017, %*
Russian Federation	47.634	47.634
Republic of Bulgaria	13.399	13.399
Hungary	12.700	12.700
Czech Republic	9.644	9.644
Slovak Republic	6.820	6.820
Romania	5.859	5.859
Republic of Cuba	1.702	1.702
Socialist Republic of Vietnam	1.165	1.165
Mongolia	1.077	1.077
	100.000	**100.000**

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

In its member countries, the Bank is not subject to taxation and enjoys all 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 Group performs its operations with reference to the regional features 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 possible 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 2018 in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* approved by the International Accounting Standards Board.

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 Bank's annual consolidated financial statements as at 31 December 2017.

Subsidiary

As at 30 June 2018, the Bank is a 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 the provision of trustee services. As at 30 June 2018, the authorized capital of the subsidiary is RUB 44.5 thousand (31 December 2017: 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.

(Thousands of euros)

2. Basis of preparation (continued)

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, available-for-sale financial instruments also stated at fair value, and buildings in the property, equipment and investment property stated at revalued amounts.

Functional and presentation currency

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 euros ("thousands of euros" or "EUR thousand"), unless otherwise indicated.

3. Summary of accounting policies

Changes in accounting policies

The Group has adopted the following amended IFRS which are effective for annual periods beginning on or after 1 January 2018. The Group has not early adopted standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each new amendment are described below:

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* and is effective for annual periods beginning on or after 1 January 2018.

The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparatives for 2017 are presented in accordance with IAS 39 and may not be consistent with the data for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in equity as at 1 January 2018 and are disclosed below.

(a) Classification and measurement

Pursuant to IFRS 9, all debt financial assets that do not meet the Solely Payments of Principal and Interest ("SPPI") criterion are classified at initial recognition as financial assets at fair value through profit or loss ("FVPL"). According to this criterion, debt instruments that do not meet the definition of basic credit agreement (such as instruments with embedded conversion options or non-recourse loans) are measured at FVPL. Those debt financial instruments that meet the SPPI criterion are classified at initial recognition based on the business model used for managing such instruments:

- Instruments held to receive contractual cash flows are measured at amortized cost.
- Instruments held to receive the contractual cash flows and for sale are classified as at fair value through other comprehensive income (FVOCI).
- Instruments held for other purposes are classified as at FVPL.

Equity financial assets are classified at initial recognition at FVPL, except when the entity decided to irrevocably designate such assets at FVOCI. For equity financial instruments classified at FVOCI, all realized and unrealized gains or losses (except for dividend income) are recognized in other comprehensive income, with no subsequent reclassification to profit or loss.

The classification and measurement of financial liabilities remains almost unchanged from the existing requirements of IAS 39.

Derivative financial instruments continue to be measured at FVPL.

(Thousands of euros)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

(b) Impairment

The adoption of IFRS 9 fundamentally changes the Group's accounting for allowances for expected credit losses by replacing the IAS 39 incurred loss approach with the forward-looking expected credit loss ("ECL") approach. Starting from 1 January 2018, the Group recognizes the allowance for ECL for all loans and other debt financial instruments not measured at FVPL, as well as for loan commitments and financial guarantee contracts, which are collectively referred to as financial instruments in this section. According to IFRS 9, requirements for impairment are not applicable to equity instruments.

The allowance for ECL is based on credit losses expected to be incurred over the life of the underlying asset (lifetime ECL), if there has been a significant increase in credit risk since the date of initial recognition. Otherwise, the allowance for ECL is based on 12-month expected credit losses. 12-month ECL are part of lifetime ECL and represent ECL arising from defaults on a financial instrument expected to occur 12 months after the reporting date.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above, the Group classifies financial instruments issued and exposed to credit risk as follows:

Stage 1: At initial recognition of a financial instrument, the Group recognizes an impairment allowance in the amount equal to 12-month ECL. Stage 1 also includes loans and other financial instruments for which credit risk decreased to the extent they have been reclassified from Stage 2.

Stage 2: If there has been a significant increase in credit risk for the financial instrument since its initial recognition, the Group recognizes an impairment allowance in the amount equal to lifetime ECL. Stage 2 also includes loans and other credit facilities for which credit risk decreased to the extent they have been reclassified from Stage 3.

Stage 3: Credit-impaired financial instruments. The Group recognizes an impairment allowance in the amount equal to lifetime ECL.

If the Group does not have reasonable expectations regarding recoverability of the financial asset in full or in part, the gross carrying amount of the asset should be decreased. Such a decrease is considered (a partial) derecognition of the financial asset.

Key inputs required for ECL calculation are as follows:

Probability of default (PD) *Probability of default* (PD) is an estimate of the probability of default within a specified period. Default may occur only at a certain point in time within the stated period unless the asset was derecognized or excluded from the portfolio.

Exposure at default (EAD) *Exposure at default* (EAD) is an estimate of the exposure at default at a certain future date, adjusted to reflect its changes expected after the reporting date, including payments of interest or the principal amount due under a contract or otherwise, as well as repayment of loans issued and interest accrued on overdue payments.

Loss given default (LGD) *Loss given default* (LGD) is an estimate of losses arising on default at a certain point in time. LGD is calculated as a difference between contractual cash flows and cash flows a creditor expects to receive, including from the sale of collateral. This estimate is usually expressed as EAD percentage.

The Group uses a wide range of forecast information as economic inputs for its ECL assessment models. Impairment losses and their reversal are accounted for and recorded separately from gain or loss from modification recognized as an adjustment to the gross carrying amount of financial assets.

The Group considers an increase in the credit risk related to a financial asset since the date of its initial recognition to be significant, if credit quality of a counterparty has deteriorated significantly and there are grounds to believe that this deterioration can adversely affect the counterparty's ability to meet its liabilities to the Group. In addition, the Group applies a qualitative tool to identify a significant increase in credit risk associated with an asset, e.g. a list of defaulting customers / non-performing instruments or asset restructuring.

(Thousands of euros)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Regardless of changes in ratings, an increase in credit risk since the date of initial recognition is considered significant, if contractual payments are over 30 days past due.

For ECL calculation purposes, the Group considers the financial instrument to be in default, and, therefore, includes it in Stage 3 (credit-impaired assets) whenever a borrower is 90 days late with contractual payments. In case of treasury or interbank transactions, the Group considers that there is a default and takes prompt remedy measures whenever the counterparty fails to make intraday payments required by specific agreements before the end of an operating day and the Group has no grounds to believe that this non-payment was a technical delay.

The Group estimates on an individual basis the ECL for all assets included in Stage 3.

(c) Effect of transition to IFRS 9

The effect of transition to IFRS 9 on the interim statement of financial position and retained earnings, including the effect from replacing the IAS 39 incurred credit loss approach with the IFRS 9 ECL approach, is described below.

A reconciliation between carrying amounts under IAS 39 and IFRS 9 as at 1 January 2018 is as follows:

		IAS 39 measurement		*Reclas-*	*Difference*	*Difference*	*IFRS 9 measurement*	
Financial assets	***Note***	***Category***	***Amount***	***sification***	***(ECL)***	***(other)***	***Amount***	***Category***
Cash and cash equivalents		L&R[1]	66,097	–	(8)	–	66,089	Amortized cost
Deposits with banks and other financial institutions		L&R	45,889	–	(241)	–	45,648	Amortized cost
Loans to banks – amortized cost		L&R	201,635	–	(8,848)	–	192,787	Amortized cost
Loans to customers – amortized cost		L&R	462,514	–	(18,542)	–	443,972	Amortized cost
From: available-for-sale securities, including those pledged under repurchase agreements		AFS[3]	215,427	(215,427)	–	–	–	
To:								
Securities at fair value through other comprehensive income, including those pledged under repurchase agreements		AFS	–	175,065	(440)	440	175,065	FVOCI (debt instruments, investments)
Securities, including those pledged under repurchase agreements – equity securities at fair value through profit or loss	B	AFS	–	1,710	–	–	1,710	FVPL (equity instruments)
Securities at amortized cost	A	HTM	–	38,652	–	1,649	40,301	FVOCI (debt instruments)
Other financial assets		L&R	728	–	(6)	–	722	
Total assets			**992,290**	**–**	**(28,085)**	**2,089**	**966,294**	
Non-financial liabilities								
Allowances for expected credit losses on credit-related commitments and contingencies			–	–	864	–	864	
Total liabilities			**–**	**–**	**864**	**–**	**864**	

[1] *L&R – loans and receivables.*

[2] *HTM – held to maturity.*

[3] *AFS – available for sale.*

A As at 1 January 2018, the Group reclassified a part of its assets previously classified as 'available for sale' to 'debt instruments measured at amortized cost'. These instruments satisfied the SPPI criterion, were unquoted in an active market and held to collect related cash flows rather than for sale.

B The Group made an irrevocable election to reclassify certain investments in equity instruments previously classified as 'available for sale' to 'investments in equity instruments at FVOCI'.

(Thousands of euros)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

The impact of transition to IFRS 9 on reserves and retained earnings is as follows:

	Reserves and retained earnings
Revaluation reserve for securities at fair value through other comprehensive income (2017: revaluation reserve for available-for-sale securities)	
Balance at the end of the period as per IAS 39 (31 December 2017)	240
Reclassification of debt securities from 'available for sale' to 'measured at amortized cost'	1,603
ECL recognized on debt financial assets at FVOCI as per IFRS 9	440
Balance at the beginning of the period as per IFRS 9 (1 January 2018)	**2,283**
Retained earnings	
Balance at the end of the period as per IAS 39 (31 December 2017)	66,788
Revaluation on reclassification of debt securities from 'available for sale' to 'measured at amortized cost'	46
ECL recognized under IFRS 9, including on instruments at FVOCI	(28,949)
Balance at the beginning of the period as per IFRS 9 (1 January 2018)	**37,885**
Total changes in equity following the adoption of IFRS 9	**(26,860)**

The following table reconciles the allowance for impairment of financial assets and provisions for credit-related commitments, letters of credit and financial guarantees as defined by IAS 39 and IAS 37 as at 31 December 2017 with the allowances for expected credit losses as defined by IFRS 9 as at 1 January 2018.

	31 December 2017 IAS 39 / IAS 37	*Revaluation as per IFRS 9*	*1 January 2018 IFRS 9*
Allowance for impairment			
Cash and cash equivalents	–	8	8
Deposits with banks and other financial institutions	34,967	241	35,208
Securities at fair value through other comprehensive income (2017: available-for-sale securities)	–	440	440
Loans to banks	9,153	8,848	18,001
Loans to customers	5,555	18,542	24,097
Other financial assets	1,741	6	1,747
	51,416	**28,085**	**79,501**
Credit-related commitments	–	408	408
Letters of credit issued to customers	–	402	402
Financial guarantees	–	54	54
	–	**864**	**864**
	51,416	**28,949**	**80,365**

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014 and amended in April 2016, establishes a five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the expectation of an entity regarding the compensation it would be entitled in exchange for transferring the goods or services to a customer. The standard, however, does not apply to income related to financial instruments or leases, and therefore does not impact most of the Group's income, including interest income, net gains/(losses) from securities, lease income regulated by IFRS 9 *Financial Instruments* and IAS 17 *Leases*. As a result, the Group's income is not affected by the adoption of this standard.

(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 influence the amounts recognized in the interim condensed consolidated financial statements and the carrying amounts of assets and liabilities in the following financial year. Estimates and assumptions are continuously assessed and are based on the management experience and other factors, including expectations of future events that are considered as reasonable under the circumstances.

Assumptions and estimates adopted by management of the Group in the process of applying the accounting policies are consistent with those described in the consolidated financial statements for the year ended 31 December 2017.

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 – Available-for-sale securities;
- Note 10 – Loans to banks;
- Note 11 – Loans to customers;
- Note 18 – Commitments and contingencies.

Reclassification of comparative information

The Group changed the presentation of line items in the interim consolidated income statement and interim consolidated statement of cash flows for the six months ended 30 June 2017. The following adjustments were made to the data for 2017 in order to be consistent with the presentation of the data for 2018:

	As previously reported	*Reclassification amount*	*As reclassified*
Item of the interim consolidated income statement			
Net losses from revaluation of derivative financial instruments	(4,591)	4,591	–
Net gains from revaluation of hedging instruments	65	(65)	–
Net gains from dealing in foreign currencies and operations with derivatives	12,520	(12,520)	–
Net losses from revaluation of assets and liabilities in foreign currencies	(944)	944	–
Net gains from dealing in foreign currencies and operations with derivatives	–	(841)	(841)
Other interest income	–	8,697	8,697
Other interest expenses	–	(806)	(806)
Item of the interim consolidated statement of cash flows			
Interest, fees and commissions received	11,641	10,620	22,261
Interest, fees and commissions paid	(2,097)	(3,955)	(6,052)
Realized gains less losses from dealing in foreign currencies and operations with derivatives	13,051	(6,665)	6,386

(Thousands of euros)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2018 (unaudited)	*31 December 2017*
Cash on hand	**364**	**85**
Nostro accounts with banks and other financial institutions		
Credit rating from A- to A+	40,639	49,120
Credit rating from BBB- to BBB+	4,126	4,167
Credit rating from BB- to BB+	370	274
Total nostro accounts with banks and other financial institutions	**45,135**	**53,561**
Short-term deposits with banks		
Term deposits with banks		
Credit rating from A- to A+	11,248	–
Credit rating from BBB- to BBB+	478	68
Credit rating from BB- to BB+	–	12,383
Total short-term deposits with banks	**11,726**	**12,451**
Less: allowance for impairment	(1)	–
Cash and cash equivalents	**57,225**	**66,097**

Cash and cash equivalents are neither impaired nor past due.

All balances of cash equivalents are included in Stage 1. The movements in the allowance for ECL for the six months ended 30 June 2018 were as follows:

Allowance for ECL at 1 January 2018	**8**
New purchased or originated assets	53
Assets derecognized or redeemed	(60)
Allowance for ECL at 30 June 2018 (unaudited)	**1**

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:

	30 June 2018 (unaudited)	*31 December 2017*
Term deposits up to 1 year		
Credit rating from B- to B+	–	37,157
Total term deposits up to 1 year	**–**	**37,157**
Term deposits over 1 year		
Credit rating from A- to A+	22,090	5,650
Credit rating from BBB- to BBB+	9,046	–
Credit rating from BB- to BB+	3,160	3,082
Total term deposits over 1 year	**34,296**	**8,732**
Less: allowance for impairment	–	–
Total deposits with banks and other financial institutions	**34,296**	**45,889**

(Thousands of euros)

6. Deposits with banks and other financial institutions (continued)

All balances of deposits with banks and other financial institutions are included in Stage 1. The movements in the allowance for ECL for the six months ended 30 June 2018 were as follows:

Allowance for ECL at 1 January 2018	**241**
New purchased or originated assets	–
Assets derecognized or redeemed	(241)
Allowance for ECL at 30 June 2018 (unaudited)	–

As at 30 June 2018, EUR 34,967 thousand (31 December 2017: EUR 34,967 thousand) were due to the Group from the Central Bank of Cuba. This amount was 100% provisioned (31 December 2017: 100%).

Concentration of deposits with banks and other financial institutions

As at 30 June 2018, besides the deposits with the Central Bank of Cuba, the Group had three counterparties (31 December 2017: three counterparties) accounting for over 10% of the Group's total deposits with banks and other financial institutions. As at 30 June 2018, these deposits amounts to EUR 27,326 thousand (31 December 2017: EUR 25,724 thousand) and were not provisioned for (31 December 2017: the deposits were not provisioned).

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.

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(Thousands of euros)

7. Derivative financial instruments (continued)

The table below shows the fair value of derivative financial instruments as at 30 June 2018 and 31 December 2017 and notional amounts of term contracts for the purchase and sale of foreign currency specifying weighted average contractual exchange rates.

	30 June 2018 (unaudited)				
	Notional 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 12,347,998 thousand	EUR 190,629 thousand	64.98	49	17,358
	RON 319,800 thousand	EUR 70,544 thousand	4.53	349	1,107
	EUR 166,500 thousand	USD 202,387 thousand	1.22	–	8,139
	EUR 15,139 thousand	HUF 4,760,000 thousand	314.42	643	5
	HUF 5,570,000 thousand	EUR 17,258 thousand	322.80	–	314
	CZK 750,000 thousand	EUR 29,503 thousand	25.42	306	–
	RUB 3,000,000 thousand	USD 52,910 thousand	56.70	–	3,286
Forwards	EUR 34,000 thousand	USD 42,040 thousand	1.24	–	2,317
Total derivative financial assets and liabilities at fair value through profit or loss				**1,347**	**32,526**
Derivative financial assets and liabilities designated as hedging instruments					
Swaps	RON 298,300 thousand	EUR 67,068 thousand	4.45	–	4,044
Total derivative financial assets and liabilities designated as hedging instruments				**–**	**4,044**
Derivative financial instruments				**1,347**	**36,570**

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(Thousands of euros)

7. Derivative financial instruments (continued)

	31 December 2017				
	Notional amount		***Weighted average***	***Fair value***	
	Purchase	***Sale***	***exchange rate***	***Assets***	***Liabilities***
Derivative financial assets and liabilities at fair value through profit or loss					
Swaps	EUR 180,000 thousand	USD 209,572 thousand	1.16	5,203	89
	EUR 10,270 thousand	HUF 3,160,000 thousand	307.69	54	–
	RUB 9,997,998 thousand	EUR 158,232 thousand	63.20	–	8,603
	RUB 3,000,000 thousand	USD 52,910 thousand	56.70	638	–
	RON 319,800 thousand	EUR 70,544 thousand	4.53	931	1,212
Forwards	EUR 34,000 thousand	USD 39,527 thousand	1.16	935	–
Total derivative financial assets and liabilities at fair value through profit or loss				**7,761**	**9,904**
Derivative financial assets and liabilities designated as hedging instruments					
Swaps	RON 298,300 thousand	EUR 67,068 thousand	4.45	–	5,169
Total derivative financial assets and liabilities designated as hedging instruments				**–**	**5,169**
Derivative financial instruments				**7,761**	**15,073**

Following the issue of bonds denominated in currencies other than the Group's functional currency (Note 16), the Group entered into cross currency interest rate swaps and currency forwards on an arm's length basis with large international and Russian 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 fair value hedge accounting for the RON-denominated bond issue placed on 27 September 2016 (Note 16).

The notional amount, stated at gross value, 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 notional amounts indicate the volume of transactions outstanding at the end of the reporting period and are not an indication of the credit risk.

As at 30 June 2018 and 31 December 2017, 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 notional 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)

8. Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income comprise:

	30 June 2018 (unaudited)	*31 December 2017*
Owned by the Bank		
Quoted debt securities at fair value through other comprehensive income		
Government bonds of non-member countries		
Credit rating AAA	–	4,066
Credit rating from AA- to AA+	11,398	–
Credit rating AA+	–	5,396
Credit rating from A- to A+	3,790	–
Credit rating B-	18,168	18,552
Government bonds	**33,356**	**28,014**
Corporate bonds		
Credit rating AAA	17,434	–
Credit rating from AA- to AA+	3,441	–
Credit rating from A- to A+	30,103	12,292
Credit rating from BBB- to BBB+	30,489	20,370
Credit rating from BB- to BB+	59,478	62,496
Credit rating from B- to B+	–	13,817
Corporate bonds	**140,945**	**108,975**
Total quoted debt securities at fair value through other comprehensive income	**174,301**	**136,989**
Quoted equity instruments at fair value through other comprehensive income		
Corporate shares:		
Credit rating A-	–	633
Credit rating BBB	–	1,077
No credit rating	5	5
Corporate shares	**5**	**1,715**
Investments in equity instruments:		
Investments in the Fund	502	–
Investments in equity instruments	**502**	**–**
Total quoted equity instruments at fair value through other comprehensive income	**507**	**1,715**
Securities at fair value through other comprehensive income	**174,808**	**138,704**
Pledged under repurchase agreements		
Quoted debt securities at fair value through other comprehensive income		
Government bonds:		
Government bonds of member countries		
Credit rating A+	1,144	10,010
Government bonds of non-member countries		
Credit rating A-	7,676	7,867
Government bonds	**8,820**	**17,877**
Corporate bonds:		
Credit rating AAA	–	19,991
Credit rating from AA- to AA+	–	7,466
Credit rating from A- to A+	10,218	18,544
Credit rating from BBB- to BBB+	–	5,995
Credit rating from BB- to BB+	–	6,850
Corporate bonds	**10,218**	**58,846**
Total quoted debt securities at fair value through other comprehensive income pledged under repurchase agreements	**19,038**	**76,723**

(Thousands of euros)

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

All securities at fair value through other comprehensive income are included in Stage 1. The movements in the allowance for ECL for the six months ended 30 June 2018 were as follows:

Allowance for ECL at 1 January 2018	**440**
New purchased or originated assets	65
Assets derecognized or redeemed	(199)
Allowance for ECL at 30 June 2018 (unaudited)	**306**

Government bonds comprise EUR- and USD-denominated securities issued and guaranteed by the Ministries of Finance of these countries. The bonds mature in 2023-2027 (31 December 2017: 2020-2027). The coupon rate for these bonds varies from 0.4% to 7.6% (31 December 2017: from 0.4% to 7.6%).

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 Group. The bonds mature in 2020-2028 (31 December 2017: 2020-2026). The coupon rate for these bonds varies from 0.1% to 7.8% (31 December 2017: from 0.4% to 7.9%).

Equity securities comprise shares issued by a major international company.

Investments in the Fund comprise investments in the Central Europe Fund of Funds (CEFoF, or the "Fund") established by the European Investment Fund (EIF), a member of the European Investment Bank (EIB), together with governments and national development banks of five countries, including the Republic of Austria, Hungary, the Slovak Republic, Slovenia and the Czech Republic. The Fund is primarily engaged in stimulating equity investments in SMEs and creating market infrastructure that would promote such investments, as well as attracting institutional investors and investment managers to the Central Europe.

9. Securities at amortized cost

As at 1 January 2018, the Group reclassified a part of its securities previously classified as 'available for sale' to 'debt instruments measured at amortized cost'. These instruments satisfy the SPPI criterion and are held to collect related cash flows rather than for sale.

	30 June 2018 (unaudited)	***31 December 2017***
Owned by the Bank		
Quoted debt securities at amortized cost		
Corporate bonds:		
Credit rating AAA	13,395	–
Credit rating AA	888	–
Credit rating BBB-	15,100	–
Corporate bonds	**29,383**	**–**
Total quoted debt securities at amortized cost	**29,383**	**–**
Pledged under repurchase agreements		
Quoted debt securities at amortized cost		
Corporate bonds:		
Credit rating AAA	8,487	–
Credit rating AA	3,552	–
Corporate bonds	**12,039**	**–**
Total quoted debt securities at amortized cost pledged under repurchase agreements	**12,039**	**–**

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 Group. The bonds mature in 2021-2026 (31 December 2017: none). The coupon rate for these bonds varies from 1.8% to 2.1% (31 December 2017: none). No allowances for ECL were made.

(Thousands of euros)

10. Loans to banks

During 2018, the Group continued its lending activities, in accordance with the key priorities of the IIB Development Strategy. The principal lending activity is to participate in financing of socially important infrastructure projects in the member countries and to facilitate the development of small and medium-sized businesses in these countries. The Group considers national development institutes, export and import banks and agencies, international financial organizations and development banks as its key counterparties.

During the six months ended 30 June 2018 and in 2017, the Group provided trade financing loans and long-term loans to borrowers operating in the following countries:

	30 June 2018 (unaudited)	*31 December 2017*
Trade financing loans		
Republic of Belarus	34,866	3,239
Russian Federation	–	23,298
Trade financing loans	**34,866**	**26,537**
Long-term loans to banks		
Mongolia	56,470	33,735
Republic of Cuba	49,909	49,863
Socialist Republic of Vietnam	25,309	25,252
Russian Federation	14,377	75,401
Long-term loans to banks	**146,065**	**184,251**
Less: allowance for impairment of loans to banks	(16,815)	(9,153)
Total loans to banks	**164,116**	**201,635**

Changes in the allowances for ECL for the six months ended 30 June 2018 are presented in the table below:

Trade financing loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2018	**114**	**–**	**–**	**114**
New purchased or originated assets	586	–	–	**586**
Assets derecognized or redeemed (excluding write-offs)	(349)	–	–	**(349)**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	–	–	–	**–**
Transfers to Stage 3	–	–	–	**–**
Effect on ECL at the year-end due to transfers between stages during the year	–	–	–	**–**
Amounts written off (against the allowance)	–	–	–	**–**
Translation differences	–	–	–	**–**
At 30 June 2018 (unaudited)	**351**	**–**	**–**	**351**

Long-term loans to banks	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2018	**2,633**	**–**	**15,254**	**17,887**
New purchased or originated assets	593	–	–	**593**
Assets derecognized or redeemed (excluding write-offs)	(789)	–	–	**(789)**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	(350)	350	–	**–**
Transfers to Stage 3	–	–	–	**–**
Effect on ECL at the year-end due to transfers between stages during the year	–	1,486	–	**1,486**
Amounts written off (against the allowance)	–	(1,836)	–	**(1,836)**
Translation differences	–	–	(877)	**(877)**
At 30 June 2018 (unaudited)	**2,087**	**–**	**14,377**	**16,464**

(Thousands of euros)

10. Loans to banks (continued)

The information on overdue loans as at 30 June 2018 and 31 December 2017 is provided below:

	30 June 2018 (unaudited)	*31 December 2017*
Total loans with overdue principal and/or interest	14,377	15,254
Less: allowance for impairment of loans to banks	(14,377)	(9,153)
Overdue loans to banks	**–**	**6,101**

For the purpose of these interim condensed consolidated financial statements, a loan to a bank 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.

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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 impairment of loans to banks by country is as follows:

	Russian Federation	*Mongolia*	*Socialist Republic of Vietnam*	*Republic of Cuba*	*Other*	*Total*
At 31 December 2017	**9,153**	–	–	–	–	**9,153**
Impact of adopting IFRS 9	6,705	1,295	291	539	18	**8,848**
At 1 January 2018	**15,858**	**1,295**	**291**	**539**	**18**	**18,001**
Net (reversal)/charge for the period	(604)	(30)	(14)	5	2,170	**1,527**
Write off against previously accrued allowance	–	–	–	–	(1,836)	**(1,836)**
Change in allowance resulting from changes in exchange rates	(877)	–	–	–	–	**(877)**
At 30 June 2018 (unaudited)	**14,377**	**1,265**	**277**	**544**	**352**	**16,815**
Individual impairment	**14,377**	–	–	–	–	**14,377**
Gross amount of loans to banks individually determined to be impaired, before deducting any individually assessed impairment allowance	**14,377**	–	–	–	–	**14,377**

	Russian Federation	*Total*
At 1 January 2017	–	–
Net charge for the period	774	**774**
At 30 June 2017 (unaudited)	**774**	**774**
Individual impairment	**774**	**774**
Gross amount of loans to banks individually determined to be impaired, before deducting any individually assessed impairment allowance	–	–

(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 2018 and 31 December 2017:

	30 June 2018 (unaudited)		*31 December 2017*	
	Loans to banks net of allowance for impairment	*Share in the total loans, %*	*Loans to banks net of allowance for impairment*	*Share in the total loans, %*
State guarantees	49,366	30.1	49,863	24.7
Uncollateralized part of the loans	114,750	69.9	151,772	75.3
Total loans to banks	**164,116**	**100**	**201,635**	**100.0**

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 2018, long-term loans and trade financing loans to five banks (31 December 2017: two banks) with a total amount of loans to each of them exceeding 10% of total loans to banks were recorded on the Group's balance sheet. As at 30 June 2018, the total amount of such major loans was EUR 132,496 thousand (31 December 2017: EUR 70,100 thousand) and allowances of EUR 1,577 thousand (31 December 2017: nil) were made for them.

11. Loans to customers

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

	30 June 2018 (unaudited)	*31 December 2017*
Republic of Bulgaria	116,712	57,995
Russian Federation	101,950	81,817
Slovak Republic	89,923	60,464
Romania	85,440	78,440
Czech Republic	50,053	49,967
Republic of Ecuador	33,066	34,763
Hungary	29,808	42,910
Republic of Panama	29,605	29,775
Mongolia	24,277	24,425
Kingdom of the Netherlands	5,693	5,847
United States of America	1,625	1,666
Gross loans to customers	**568,152**	**468,069**
Less: allowance for impairment of loans to customers	(22,525)	(5,555)
Loans to customers	**545,627**	**462,514**

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(Thousands of euros)

11. Loans to customers (continued)

Changes in the allowances for ECL for the six months ended 30 June 2018 are presented in the table below:

Loans to customers	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Allowance for ECL at 1 January 2018	**5,336**	**3,610**	**15,151**	**24,097**
New purchased or originated assets	1,119	6	–	**1,125**
Assets derecognized or redeemed (excluding write-offs)	(4,014)	–	–	**(4,014)**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	–	–	–	**–**
Transfers to Stage 3	–	–	–	**–**
Effect on ECL at the year-end due to transfers between stages during the year	–	–	–	**–**
Changes to models and inputs used for ECL calculations	–	1,317	–	**1,317**
Amounts written off (against the allowance)	–	–	–	**–**
Translation differences	–	–	–	**–**
At 30 June 2018 (unaudited)	**2,441**	**4,933**	**15,151**	**22,525**

A summary of overdue loans as at 30 June 2018 and 31 December 2017 is presented below:

	30 June 2018 (unaudited)	***31 December 2017***
Total loans with overdue principal and/or interest	15,151	15,151
Less: allowance for loan impairment	(15,151)	(5,255)
Overdue loans to customers	**–**	**9,896**

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.

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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 loan to customers impairment by country is as follows:

	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Hungary*	*Mongolia*	*Other*	*Total*
At 31 December 2017	**–**	**300**	**5,255**	**–**	**–**	**–**	**–**	**5,555**
Impact of adopting IFRS 9	64	3,752	10,261	454	3,333	370	308	**18,542**
At 1 January 2018	**64**	**4,052**	**15,516**	**454**	**3,333**	**370**	**308**	**24,097**
Net (reversal)/charge for the period	23	1,407	154	53	(3,040)	(21)	(148)	**(1,572)**
At 30 June 2018 (unaudited)	**87**	**5,459**	**15,670**	**507**	**293**	**349**	**160**	**22,525**
Individual impairment	**–**	**–**	**15,151**	**–**	**–**	**–**	**–**	**15,151**
Gross amount of loans to customers individually determined to be impaired, before deducting any individually assessed impairment allowance	**–**	**–**	**15,151**	**–**	**–**	**–**	**–**	**15,151**

	Slovak Republic	*Republic of Bulgaria*	*Romania*	*Total*
At 1 January 2017	**8,103**	**6,955**	**2,254**	**17,312**
Net charge for the period	–	6	3,001	**3,007**
Write off against previously accrued allowance	(8,103)	(6,666)	–	**(14,769)**
At 30 June 2017 (unaudited)	**–**	**295**	**5,255**	**5,550**
Individual impairment	**–**	**–**	**5,255**	**5,255**
Gross amount of loans to customers, individually determined to be impaired, before deducting any individually assessed impairment allowance	**–**	**–**	**15,151**	**15,151**

(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 2018 and 31 December 2017:

	30 June 2018 (unaudited)		***31 December 2017***	
	Loans to customers net of allowance for impairment	***Share in the total loans, %***	***Loans to customers net of allowance for impairment***	***Share in the total loans %***
Pledge of real property (mortgage) and title	103,093	18.9	86,728	18.8
Corporate guarantees	98,393	18.0	70,599	15.3
Pledge of shares	96,507	17.7	42,504	9.2
State guarantees	62,535	11.5	74,476	16.1
Pledge of equipment and goods in turnover	15,115	2.8	15,292	3.3
Pledge of vehicles	9,830	1.8	1,476	0.3
Pledge of rights of claim	5,327	1.0	6,150	1.3
Uncollateralized part of the loans	154,827	28.3	165,289	35.7
Total loans to customers	**545,627**	**100.0**	**462,514**	**100.0**

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.

Concentration of loans to customers

As at 30 June 2018, loans to two borrowers (31 December 2017: three borrowers) with the total amount of loans to each of the two borrowers exceeding 10% of total loans to customers were recorded on the Group's balance sheet. As at 30 June 2018, these loans comprised EUR 164,368 thousand (31 December 2017: EUR 181,256 thousand) in total and impairment allowances of EUR 249 thousand (31 December 2017: nil) were made for them.

Analysis of loans to customers by industry

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

	30 June 2018 (unaudited)	***31 December 2017***
Production and transmission of electricity	149,597	104,847
Leasing	128,724	116,910
Metal working industry	50,053	49,967
Communications	49,897	22,815
Crude oil refining	30,097	30,099
Advisory services	29,431	19,543
Food and beverage	22,736	25,662
Mining	21,430	20,632
Manufacturing of electrical equipment	21,297	21,159
Real estate	19,267	19,722
Production of pharmaceutical products	13,182	11,319
Agriculture	11,970	13,408
Transport	10,757	11,248
Oil and gas production	9,714	–
Trading	–	738
	568,152	**468,069**
Less: allowance for impairment of loans to customers	(22,525)	(5,555)
Loans to customers	**545,627**	**462,514**

(Thousands of euros)

12. Other assets and liabilities

Other assets comprise:

	30 June 2018 (unaudited)	*31 December 2017*
Financial assets		
Settlements on bank transactions	2,006	2,007
Guarantee payments	25	26
Accounts receivable on business operations	40	73
Other financial assets	296	363
	2,367	**2,469**
Less: allowance for impairment of other financial assets	(1,657)	(1,741)
Total financial assets	**710**	**728**
Non-financial assets		
Advances issued	1,080	990
Assets held for sale – real estate	89	89
Inventories – real estate	–	50
Other non-financial assets	967	619
Total non-financial assets	**2,136**	**1,748**
Total other assets	**2,846**	**2,476**

The changes in the in allowance for impairment of other financial assets are as follows:

	30 June 2018 (unaudited)	*31 December 2017*
Allowance in accordance with IFRS 39	**1,741**	**1,924**
Impact of adopting IFRS 9	(6)	–
Allowance at 1 January	**1,735**	**1,924**
New purchased or originated assets	13	–
Assets derecognized or redeemed	(15)	(29)
Change in allowance resulting from changes in exchange rates	(76)	(154)
Allowance at the end of the period	**1,657**	**1,741**

Other liabilities comprise:

	30 June 2018 (unaudited)	*31 December 2017*
Financial liabilities		
Other accounts payable on business operations	929	1,015
Other accounts payable on bank transactions	880	1,125
Other financial liabilities	–	8
Total financial liabilities	**1,809**	**2,148**
Non-financial liabilities		
Settlements with employees	4,173	4,070
Allowances for expected credit losses on credit-related commitments	1,231	–
Other non-financial liabilities	342	178
Total non-financial liabilities	**5,746**	**4,248**
Total other liabilities	**7,555**	**6,396**

(Thousands of euros)

13. Allowances for credit losses, other impairment losses and provisions

The table below shows the allowances for ECL on financial instruments recorded in profit or loss for the six months ended 30 June 2018:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	5	(7)	–	–	**(7)**
Deposits with banks and other financial institutions	6	(241)	–	–	**(241)**
Securities at fair value through other comprehensive income	8	(134)	–	–	**(134)**
Securities at amortized cost	9	–	–	–	**–**
Loans to banks	10	(309)	1,836		**1,527**
Loans to customers	11	(2,895)	1,323	–	**(1,572)**
Other financial assets	12	(2)	–	–	**(2)**
Other non-financial liabilities (credit-related commitments)	12, 18	368	(1)	–	**367**
Total (income)/loss on impairment		**(3,220)**	**3,158**	**–**	**(62)**

The changes in the allowance for ECL on financial instruments for the six months ended 30 June 2018 were as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2018	**9,574**	**3,678**	**67,000**	**80,252**
New purchased or originated assets	3,811	6	–	**3,817**
Assets derecognized or redeemed (excluding write-offs)	(6,677)	(1)	–	**(6,678)**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	(350)	350	–	**–**
Transfers to Stage 3	–	–	–	**–**
Effect on ECL at the year-end due to transfers between stages during the year	–	1,486	–	**1,486**
Changes to models and inputs used for ECL calculations	–	1,317	–	**1,317**
Amounts written off	–	(1,836)	–	**(1,836)**
Translation differences	–	–	(947)	**(947)**
At 30 June 2018	**6,358**	**5,000**	**66,053**	**77,411**

As at 30 June 2018 on the Group's balance sheet there were no other allowances except for those mentioned above.

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:

	30 June 2018 (unaudited)	***31 December 2017***
Due to banks up to 1 year		
Term deposits of banks and other financial institutions	59,771	3,496
Total due to banks up to 1 year	**59,771**	**3,496**
Due to banks over 1 year		
Repurchase agreements	25,170	62,015
Total due to banks over 1 year	**25,170**	**62,015**
Total due to banks	**84,941**	**65,511**

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

(Thousands of euros)

14. Due to banks and other financial institutions (continued)

Concentration of amounts due to banks and other financial institutions

As at 30 June 2018, the Group has three counterparties (31 December 2017: two counterparties) accounting for over 10% of the Group's total amounts due to banks and other financial institutions. Resources raised from these counterparties amounted to EUR 75,062 thousand (31 December 2017: EUR 62,015 thousand).

15. Long-term loans of banks

Long-term loans of banks comprise:

	30 June 2018 (unaudited)	*31 December 2017*
Loans of banks	23,133	12,898
SSD	22,944	22,939
Syndicated loans	–	59,755
Total long-term loans of banks	**46,077**	**95,592**

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 10,237 thousand) under the loan agreement of USD 50 million.

In 2017, the Group issued SSD debentures (Schuldscheindarlehen) in the Western European market in the total amount of EUR 23,000 thousand.

On 3 August 2017, the Group raised bilateral financing in the Hungarian financial market in the amount of HUF 4.0 billion (EUR 13,185 thousand).

16. Debt securities issued

Debt securities issued comprise:

	Interest rate, % p.a.	*Maturity*	*30 June 2018 (unaudited)*	*31 December 2017*
RUB-denominated bonds	0.01-9.5	2024-2027	306,942	267,112
RON-denominated bonds	3.4-4.5	2018-2020	154,783	152,084
EUR-denominated bonds	1.59-3.5	2019-2020	91,092	90,017
CZK-denominated bonds	1.5	2021	28,936	–
Total bonds			**581,753**	**509,213**

On 26 April 2018, the Group placed bonds on the Czech market in the amount of CZK 501.1 million (EUR 19,832 thousand) maturing in three years. The interest rate on bonds was set at 3m Pribor + 0.55% p.a.

On 30 May 2018, the Group made a secondary placement of RUB-denominated bonds, series 03, in the amount of RUB 3.99 RUB billion (EUR 55,120 thousand) that had been repurchased in 2017 under the offer. A new coupon rate of 7.6% p.a. was set, with an offer planned for November 2018.

The Group redeemed RUB-denominated bonds, series 03, worth a total of RUB 3.99 billion (EUR 62,858 thousand) on 2 June 2017, as scheduled under the offer. A new coupon rate of 0.01% was set for the remaining bonds of this issue.

On 04 June 2018, the Group additionally placed bonds on the Czech market in the amount of CZK 249.7 million (EUR 9,675 thousand) maturing in three years. The interest rate on bonds was set at 3m Pribor + 0.50% p.a.

(Thousands of euros)

16. Debt securities issued (continued)

On 14 June 2017, the Group placed an issue of exchange-traded bonds at the Moscow Exchange under the Program to issue exchange-traded bonds registered in 2016. The issue totaled RUB 10 billion (EUR 156,579 thousand) and provides for an offer in March 2020. The coupon rate on the bonds was set at 8.75% payable on a quarterly basis with the first coupon payment to be made on 11 September 2017.

The Group placed a third issue of bonds in the Romanian stock market on 25 September 2017. The issue comprises two tranches of EUR 60 million and RON 300 million (EUR 65,199 thousand) maturing in three years. EUR-denominated bonds and RON-denominated bonds bear interest rates of 1.593% p.a. and 3m Robor + 1.50%, respectively.

The Group partially redeemed RUB-denominated bonds, series 01, worth a total of RUB 489,432 thousand (EUR 7,259 thousand) on 27 October 2017, as scheduled under the offer. A new coupon rate of 0.01% was set for the remaining bonds of this issue.

The Group redeemed and made a secondary placement of bonds, series 04, worth RUB 1.2 billion (EUR 18,271 thousand) on 21 November 2017, as scheduled under the offer. A new coupon rate of 8.15% was set.

At the dates of placement of 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, to the currency required by the Group (EUR, USD) to finance credit projects in the required currency. The Group applies hedge accounting for the fair value of the bond issue in Romanian lei placed on 27 September 2016. The effects of using cross-currency interest rate swaps and fair value hedge operations are disclosed in Note 20.

The Group primarily used the proceeds from issuance of debt instruments and placement of bonds to expand its loan portfolio.

17. Equity

Subscribed and paid-in capital

The Bank's subscribed capital amounts to EUR 1,300,000 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 2018, the unpaid portion of the Bank's subscribed capital in the amount of EUR 985,038 thousand (31 December 2017: EUR 985,038 thousand) is the amount of contributions that have not been made yet by the Bank's member countries and the amount of unallocated equity contributions totaling EUR 175,500 thousand (31 December 2017: EUR 175,500 thousand).

The Government of Mongolia made an additional contribution of EUR 1,909 thousand to the Bank's equity on 27 December 2017.

The paid-in capital of the International Investment Bank totaled EUR 314,962 thousand (31 December 2017: EUR 314,962 thousand).

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(Thousands of euros)

17. Equity (continued)

Revaluation reserve for securities at fair value through other comprehensive income and revaluation reserve for property and equipment

The changes in the revaluation reserve for securities at fair value through other comprehensive income and revaluation reserve for property and equipment were as follows:

	Revaluation reserve for securities at fair value through other comprehensive income	*Revaluation reserve for property and equipment*
At 1 January 2017	**(1,506)**	**12,945**
Net unrealized gains on available-for-sale securities	4,824	–
Realized gains on available-for-sale securities reclassified to the income statement	(4,553)	–
At 30 June 2017 (unaudited)	**(1,235)**	**12,945**
At 31 December 2017	**240**	**13,748**
Impact of adopting IFRS 9	2,043	–
At 1 January 2018	**2,283**	**13,748**
Net unrealized gains on securities at fair value through other comprehensive income	(4,542)	–
Change in the allowance for expected credit losses related to securities through other comprehensive income	306	–
Realized gains on securities at fair value through other comprehensive income, reclassified to the income statement	(2,238)	–
Losses from revaluation of equity securities at fair value through other comprehensive income	(48)	–
At 30 June 2018 (unaudited)	**(4,239)**	**13,748**

Revaluation reserve for securities at fair value through other comprehensive income

The revaluation reserve for securities at fair value through other comprehensive income records fair value changes of available-for-sale investments.

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 is exempt from any national or local direct taxes or duties effective in the territories of its member states. For taxation purposes, its subsidiaries are subject to the provisions of the effective Russian tax, currency and customs legislation.

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 2018, credit-related commitments of the Group comprised off-balance credit-related commitments, in particular undrawn loan facilities, guarantees and reimbursement obligations. 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.

Off-balance credit-related commitments are presented in the table below as at 30 June 2018 and 31 December 2017.

	30 June 2018 (unaudited)	***31 December 2017***
Undrawn loan facilities	137,722	116,161
Guarantees issued	70,670	15,425
Reimbursement obligations	16,786	32,812
	225,178	**164,398**
Less: allowance for impairment of the off-balance sheet credit related commitments	(1,231)	–
Total credit-related commitments	**223,947**	**164,398**

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(Thousands of euros)

18. Commitments and contingencies (continued)

Credit-related commitments (continued)

The table below shows the analysis of changes in the allowances for ECL for the six months ended 30 June 2018:

Guarantees issued	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Allowance for ECL at 1 January 2018	**54**	**–**	**–**	**54**
New purchased or originated assets	849	–	–	**849**
Assets derecognized or redeemed (excluding write-offs)	(249)	–	–	**(249)**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	–	–	–	**–**
Transfers to Stage 3	–	–	–	**–**
Effect on ECL at the year-end due to transfers between stages during the year	–	–	–	**–**
Amounts written off (against the allowance)	–	–	–	**–**
Translation differences	–	–	–	**–**
At 30 June 2018 (unaudited)	**654**	**–**	**–**	**654**

Undrawn loan facilities	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Allowance for ECL at 1 January 2018	**340**	**68**	**–**	**408**
New purchased or originated assets	253	–	–	**253**
Assets derecognized or redeemed (except for write-offs)	(328)	(1)	–	**(329)**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	–	–	–	**–**
Transfers to Stage 3	–	–	–	**–**
Effect on ECL at the year-end due to transfers between stages during the year	–	–	–	**–**
Amounts written off (against the allowance)	–	–	–	**–**
Translation differences	–	–	–	**–**
At 30 June 2018 (unaudited)	**265**	**67**	**–**	**332**

Reimbursement obligations	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Allowance for ECL at 1 January 2018	**402**	**–**	**–**	**402**
New purchased or originated assets	272	–	–	**272**
Assets derecognized or redeemed (except for write-offs)	(429)	–	–	**(429)**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	–	–	–	**–**
Transfers to Stage 3	–	–	–	**–**
Effect on ECL at the year-end due to transfers between stages during the year	–	–	–	**–**
Amounts written off (against the allowance)	–	–	–	**–**
Translation differences	–	–	–	**–**
At 30 June 2018 (unaudited)	**245**	**–**	**–**	**245**

19. Leases

Group as lessor

The Group provides its investment property for operating leases. As at 30 June 2018, the Group's non-cancellable operating lease rentals amount to EUR 3,744 thousand (31 December 2017: EUR 6,819 thousand) and will be settled during the period from 1 month to 4.4 years (31 December 2017: 1 to 5 years).

(Thousands of euros)

20. Interest income and interest expenses

Net interest income comprises:

	30 June 2018 (unaudited)	*30 June 2017 (unaudited)*
Interest income		
Interest income calculated using the EIR method		
Loans to customers	12,947	8,313
Loans to banks	4,644	3,077
Securities at fair value through other comprehensive income	2,782	3,120
Deposits with banks and other financial institutions, including cash and cash equivalents	776	1,637
Securities at amortized cost	457	–
Other	3	–
Other interest income		
Cross-currency interest rate swaps to manage long-term currency risks	7,943	8,697
Total interest income	**29,552**	**24,844**
Interest expenses		
Interest expenses calculated using the EIR method		
Debt securities issued	(15,492)	(11,932)
Long-term loans of banks	(1,197)	(1,235)
Funds raised under repurchase agreements	(626)	(971)
Current customer accounts	(90)	(120)
Due to banks and other financial institutions	(56)	(103)
Other	(15)	(3)
Other interest expenses		
Cross-currency interest rate swaps to manage long-term currency risks	(908)	(806)
Total interest expense	**(18,384)**	**(15,170)**
Net interest income	**11,168**	**9,674**

There was no interest income accrued on impaired loans for the six months ended 30 June 2018 (2017: EUR 122 thousand).

21. Net gains from operations in foreign currencies and with derivatives

Gains less losses from operations in foreign currencies and with derivatives comprised:

	30 June 2018 (unaudited)	*30 June 2017 (unaudited)*
Derivative financial instruments and operations with foreign currencies		
Net gains from dealing in foreign currencies and operations with derivatives	13,560	12,520
Net losses from revaluation of derivative financial instruments	(28,583)	(4,064)
Total derivative financial instruments and operations with foreign currencies	**(15,023)**	**8,456**
Fair value hedge operations		
Net gains/(losses) from revaluation of fair value hedge operations	624	(258)
Net losses from revaluation of hedged object	(834)	(204)
Total fair value hedge operations	**(210)**	**(462)**
Translation differences		
Net gains/(losses) from revaluation of assets and liabilities in foreign currencies	13,373	(8,835)
Net losses from operations in foreign currencies and with derivatives	**(1,860)**	**(841)**

(Thousands of euros)

22. General and administrative expenses

General and administrative expenses comprise:

	30 June 2018 (unaudited)	*30 June 2017 (unaudited)*
Employee compensations and employment taxes	6,338	6,544
Depreciation of property, equipment and intangible assets	1,031	1,005
IT-expenses, inventory and occupancy expenses	897	845
Expenses related to business travel, representative and accommodation expenses	275	292
Professional services	148	124
Other	214	251
General and administrative expenses	**8,903**	**9,061**

23. Risk management

Risk management framework

The Group's risk management policy is based on the conservative assessment approach and is mainly aimed at mitigation of 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 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 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 situation on the 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 the evaluating, assuming, and controlling risks ("Three lines of defense"):

- Risk-taking (1st line of defense): the Group's divisions directly preparing and conducting transactions, 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 (2nd 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 (3rd line of defense): independent quality assessment for existing risk management processes, identification of violations, and proposals for the improvement of the risk management system.

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

(Thousands of euros)

23. Risk management (continued)

Risk management system (continued)

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 discharged 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 assessment of credit quality of assets is based on the qualitative and quantitative assessment of credit risk.

Deposit contracts with banks and other financial institutions are concluded with counterparties with acceptable credit ratings assigned by such internationally recognized rating agencies as Standard & Poor's, Fitch and Moody's.

Assessment of credit quality of loans is based on a 5 grade system of risk factor categories: standard, sub-standard, doubtful, impaired and uncollectible. The risk factor category is assigned on the basis of the assessment of the customer's financial position, payment discipline, credit history, compliance with 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.

The following table provides information on the credit quality of long-term loans to banks and trade financing loans (Note 10) and loans to customers (Note 11) as at 30 June 2018 and 31 December 2017:

30 June 2018 (unaudited)	*Loan amount*	*Allowance for impairment*	*Loan amount, including allowance for impairment*	*Impairment to loan amount ratio, %*
Trade financing loans				
Standard loans	34,866	(351)	34,515	1.0
Total trade financing loans	**34,866**	**(351)**	**34,515**	**1.0**
Long-term loans to banks				
Standard loans	131,688	(2,087)	129,601	1.6
Loans more than 90 days past due	14,377	(14,377)	–	100.0
Total long-term loans to banks	**146,065**	**(16,464)**	**129,601**	**11.3**
Loans to customers				
Standard loans	546,856	(2,765)	544,091	0.5
Restructured loans	6,145	(4,609)	1,536	75.0
Loans more than 90 days past due	15,151	(15,151)	–	100.0
Total loans to customers	**568,152**	**(22,525)**	**545,627**	**4.0**
Total loans	**749,083**	**(39,340)**	**709,743**	**5.3**

(Thousands of euros)

23. Risk management (continued)

Credit risk (continued)

31 December 2017	*Loan amount*	*Allowance for impairment*	*Loan amount, including allowance for impairment*	*Impairment to loan amount ratio, %*
Trade financing loans				
Standard loans	26,537	–	26,537	–
Total trade financing loans	**26,537**	**–**	**26,537**	**–**
Long-term loans to banks				
Standard loans	168,997	–	168,997	–
Loans more than 90 days past due	15,254	(9,153)	6,101	60.0
Total long-term loans to banks	**184,251**	**(9,153)**	**175,098**	**5.0**
Loans to customers				
Standard loans	446,910	–	446,910	–
Restructured loans	6,008	(300)	5,708	5.0
Loans more than 90 days past due	15,151	(5,255)	9,896	34.7
Total loans to customers	**468,069**	**(5,555)**	**462,514**	**1.2**
Total loans	**678,857**	**(14,708)**	**664,149**	**2.2**

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Renegotiated loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual impairment assessment, calculated using the loan's original effective interest rate.

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 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.

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

Main instrument of liquidity position management under the stable scenario is a Plan of Cash Flows defining the cash flow by balance sheet products/instruments and taking into account the plan of future financial operations. The Group determines the balance sheet gaps, payment schedule and need in financing of future operations based on the Plan of Cash Flows. As a result of application of these instruments, ALM Unit issues appropriate recommendations to responsible structural divisions.

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 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 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). Liquidity buffer may be used to close the negative net position. As at 30 June 2018, the liquidity buffer amounts to EUR 72.9 million (31 December 2017: EUR 83.5 million).

(Thousands of euros)

23. Risk management (continued)

Liquidity risk (continued)

The table below shows the contractual maturities of the Group's off-balance credit-related commitments. In case of absence of contractual schedule of the credit related commitments, these obligations are included into the earliest date, at which the client can demand their execution.

	30 June 2018 (unaudited)	*31 December 2017*
Less than 1 month	137,390	25,835
1 to 3 months	5,054	72,744
3 months to 1 year	43,182	41,489
1 to 5 years	2,346	24,330
Over 5 years	35,975	–
Off-balance credit-related commitments	**223,947**	**164,398**

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(Thousands of euros)

23. Risk management (continued)

Liquidity risk (continued)

The following table provides an analysis of assets and liabilities on the basis of the remaining period from the reporting date to the contractual maturity date. Quoted debt instruments at fair value through other comprehensive income and equity instruments were included in “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 profit or loss pledged under repurchase agreements are presented on the basis of periods from the reporting date to the expiry date of respective contractual obligations of the Group.

	30 June 2018 (unaudited)							*31 December 2017*						
	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*
Assets														
Cash and cash equivalents	56,746	479	–	–	–	–	**57,225**	65,445	652	–	–	–	–	**66,097**
Deposits with banks and other financial institutions	–	–	–	34,296	–	–	**34,296**	5,026	7,097	25,034	8,732	–	–	**45,889**
Derivative financial assets	49	–	–	1,298	–	–	**1,347**	935	–	5,072	1,754	–	–	**7,761**
Securities at fair value through other comprehensive income	174,808	19,038	–	–	–	–	**193,846**	138,737	54,783	21,907	–	–	–	**215,427**
Securities at amortized cost	–	83	216	4,404	36,719	–	**41,422**	–	–	–	–	–	–	**–**
Loans to banks	10,300	8,411	30,822	103,903	10,680	–	**164,116**	1,322	53,491	49,786	90,935	–	6,101	**201,635**
Loans to customers	11,904	17,798	70,627	151,801	293,497	–	**545,627**	8,965	8,719	77,334	147,277	210,323	9,896	**462,514**
Other financial assets	457	15	171	67	–	–	**710**	489	57	19	163	–	–	**728**
Total assets	**254,264**	**45,824**	**101,836**	**295,769**	**340,896**	**–**	**1,038,589**	**220,919**	**124,799**	**179,152**	**248,861**	**210,323**	**15,997**	**1,000,051**
Liabilities														
Due to banks and other financial institutions	(49,889)	(35,052)	–	–	–	–	**(84,941)**	–	(30,982)	(34,059)	(470)	–	–	**(65,511)**
Current customer accounts	(8,659)	–	–	–	–	–	**(8,659)**	(8,593)	–	–	–	–	–	**(8,593)**
Derivative financial liabilities	(2,489)	(2,783)	(11,139)	(20,159)	–	–	**(36,570)**	–	(89)	(1,213)	(13,771)	–	–	**(15,073)**
Long-term loans of banks	–	(280)	–	(28,948)	(16,849)	–	**(46,077)**	–	(24)	(59,967)	(18,819)	(16,782)	–	**(95,592)**
Debt securities issued	(76)	(6,047)	(123,234)	(452,396)	–	–	**(581,753)**	–	(3,906)	(26,519)	(478,788)	–	–	**(509,213)**
Other financial liabilities	(1,109)	–	(654)	(46)	–	–	**(1,809)**	(762)	(953)	(396)	(37)	–	–	**(2,148)**
Total liabilities	**(62,222)**	**(44,162)**	**(135,027)**	**(501,549)**	**(16,849)**	**–**	**(759,809)**	**(9,355)**	**(35,954)**	**(122,154)**	**(511,885)**	**(16,782)**	**–**	**(696,130)**
Net position	**192,042**	**1,662**	**(33,191)**	**(205,780)**	**324,047**	**–**	**278,780**	**211,564**	**88,845**	**56,998**	**(263,024)**	**193,541**	**15,997**	**303,921**
Accumulated net position	**192,042**	**193,704**	**160,513**	**(45,267)**	**278,780**	**278,780**		**211,564**	**300,409**	**357,407**	**94,383**	**287,924**	**303,921**	

(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 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.

Currency 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 the 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 metals 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 currency position of the Group is carried out in major currencies and financial instruments of the Group attributable to a securities portfolio.

At 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.

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 2018 and 31 December 2017, final data on value at risk (VaR) assessment in relation to currency and price risks assumed by the Group are represented as follows:

	30 June 2018 (unaudited)	***31 December 2017***
Fixed income securities price risk	936	1,005
Equity securities price risk	–	125
Currency risk	282	45

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 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.
- 10-day time horizon implies the entire Group's position over this period could have been closed or hedged. Results of 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 2018 and 31 December 2017 is presented below:

	30 June 2018 (unaudited)					*31 December 2017*				
	EUR	*USD*	*RUB*	*Other currencies*	*Total*	*EUR*	*USD*	*RUB*	*Other currencies*	*Total*
Non-derivative financial Assets										
Cash and cash equivalents	38,686	12,220	932	5,387	**57,225**	50,488	1,730	13,501	378	**66,097**
Deposits with banks and other financial institutions	34,296	–	–	–	**34,296**	28,936	16,953	–	–	**45,889**
Securities at fair value through other comprehensive income	95,184	90,083	8,579	–	**193,846**	111,516	102,202	–	1,709	**215,427**
Securities at amortized cost	15,101	26,321	–	–	**41,422**	–	–	–	–	**–**
Long-term loans to banks	129,426	34,690	–	–	**164,116**	147,253	54,382	–	–	**201,635**
Loans to customers	320,023	106,019	80,440	39,145	**545,627**	247,804	108,254	64,097	42,359	**462,514**
Other financial assets	154	334	220	2	**710**	186	323	214	5	**728**
Total non-derivative financial assets	**632,870**	**269,667**	**90,171**	**44,534**	**1,037,242**	**586,183**	**283,844**	**77,812**	**44,451**	**992,290**
Liabilities										
Due to banks and other financial institutions	(70,180)	–	–	(14,761)	**(84,941)**	(34,608)	(29,337)	–	(1,566)	**(65,511)**
Current customer accounts	(8,545)	(114)	–	–	**(8,659)**	(8,481)	(112)	–	–	**(8,593)**
Long-term loans of banks	(22,944)	(10,938)	–	(12,195)	**(46,077)**	(82,694)	–	–	(12,898)	**(95,592)**
Debt securities issued	(91,108)	–	(306,942)	(183,703)	**(581,753)**	(90,017)	–	(267,112)	(152,084)	**(509,213)**
Other financial liabilities	(873)	–	(925)	(11)	**(1,809)**	(546)	(175)	(1,427)	–	**(2,148)**
Total non-derivative financial liabilities	**(193,650)**	**(11,052)**	**(307,867)**	**(210,670)**	**(723,239)**	**(216,346)**	**(29,624)**	**(268,539)**	**(166,548)**	**(681,057)**
Net balance sheet position (excluding derivative financial instruments)	**439,220**	**258,615**	**(217,696)**	**(166,136)**	**314,003**	**369,837**	**254,220**	**(190,727)**	**(122,097)**	**311,233**
Derivative financial instruments										
Claims	181,750	–	217,908	176,151	**575,809**	190,457	–	197,443	132,639	**520,539**
Liabilities	(371,996)	(224,507)	–	(14,529)	**(611,032)**	(296,697)	(220,909)	–	(10,245)	**(527,851)**
Net balance sheet position including derivative financial instruments	**248,974**	**34,108**	**212**	**(4,514)**	**278,780**	**263,597**	**33,311**	**6,716**	**297**	**303,921**

(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, judgement 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 the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 30 June 2018:

	Level 1 30 June 2018 (unaudited)	*Level 2 30 June 2018 (unaudited)*	*Level 3 30 June 2018 (unaudited)*	*Total 30 June 2018 (unaudited)*
Assets measured at fair value				
Derivative financial assets	–	1,347	–	**1,347**
Government bonds of member countries	41,919	–	–	**41,919**
Corporate bonds	151,114	–	–	**151,114**
Quoted equity instruments	–	5	–	**5**
Investment property	–	–	20,862	**20,862**
Property and equipment – buildings	–	–	67,054	**67,054**
Liabilities measured at fair value				
Derivative financial liabilities	–	36,570	–	**36,570**
Assets for which fair values are disclosed				
Cash and cash equivalents	364	56,861	–	**57,225**
Deposits with banks and other financial institutions	–	–	34,296	**34,296**
Securities at amortized cost	–	38,537	–	**38,537**
Loans to banks	–	–	161,448	**161,448**
Loans to customers	–	–	554,398	**554,398**
Liabilities for which fair values are disclosed				
Due to banks and other financial institutions	–	–	84,941	**84,941**
Current customer accounts	–	–	8,659	**8,659**
Long-term loans of banks	–	–	46,077	**46,077**
Debt securities issued	–	585,051	–	**585,051**

(Thousands of euros)

24. Fair value measurements (continued)

Fair value hierarchy (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2017:

	Level 1 2017	*Level 2 2017*	*Level 3 2017*	*Total 2017*
Assets measured at fair value				
Derivative financial assets	–	7,761	–	**7,761**
Government bonds of member countries	45,891	–	–	**45,891**
Corporate bonds	149,277	18,544	–	**167,821**
Quoted equity instruments	1,710	5	–	**1,715**
Investment property	–	–	21,853	**21,853**
Property and equipment – buildings	–	–	67,572	**67,572**
Liabilities measured at fair value				
Derivative financial liabilities	–	15,073	–	**15,073**
Assets for which fair values are disclosed				
Cash and cash equivalents	85	66,012	–	**66,097**
Deposits with banks and other financial institutions	–	–	45,889	**45,889**
Loans to banks	–	–	201,743	**201,743**
Loans to customers	–	–	465,973	**465,973**
Liabilities for which fair values are disclosed				
Due to banks and other financial institutions	–	–	65,511	**65,511**
Current customer accounts	–	–	8,593	**8,593**
Long-term loans of banks	–	–	95,592	**95,592**
Debt securities issued	–	514,893	–	**514,893**

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.

	Carrying amount 30 June 2018 (unaudited)	*Fair value 30 June 2018 (unaudited)*	*Unrecognized gain/(loss) 30 June 2018 (unaudited)*	*Carrying amount 31 December 2017*	*Fair value 31 December 2017*	*Unrecognized gain/(loss) 31 December 2017*
Financial assets						
Cash and cash equivalents	57,225	57,225	–	66,097	66,097	–
Deposits with banks and other financial institutions	34,296	34,296	–	45,889	45,889	–
Securities at amortized cost	41,422	38,537	(2,885)	–	–	–
Loans to banks	164,116	161448	(2,668)	201,635	201,743	108
Loans to customers	545,627	554,398	8,771	462,514	465,973	3,459
Financial liabilities						
Due to banks and other financial institutions	84,941	84,941	–	65,511	65,511	–
Current customer accounts	8,659	8,659	–	8,593	8,593	–
Long-term loans of banks	46,077	46,077	–	95,592	95,592	–
Debt securities issued	581,753	585,051	(3,298)	509,213	514,893	(5,680)
Total unrecognized change in unrealized fair value			**(80)**			**(2,113)**

(Thousands of euros)

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 units 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:

30 June 2018 (unaudited)	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	17,592	11,943	17	**29,552**
Fee and commission income	870	–	–	**870**
Net gains from operations with securities at fair value through profit or loss	–	92	–	**92**
Net gains from operations with securities at fair value through other comprehensive income	–	2,238	–	**2,238**
Dividend income	–	6	–	**6**
Income from lease of investment property	–	–	2,032	**2,032**
Net reversal of allowance for impairment of financial instruments	(398)	382	76	**60**
Net reversal of allowance for credit losses from impairment of other financial assets	–	–	2	**2**
Other segment income	232	–	300	**532**
Total income	**18,296**	**14,661**	**2,427**	**35,384**
Interest expenses	(10,456)	(7,928)	–	**(18,384)**
Fee and commission expense	(31)	(82)	(2)	**(115)**
Net losses from dealing in foreign currencies and operations with derivatives	–	(1,844)	(16)	**(1,860)**
Cost of inventories sold			(48)	**(48)**
Other segment expenses	–	–	(987)	**(987)**
Segment results	**7,809**	**4,807**	**1,374**	**13,990**
Other unallocated expenses				**(8,903)**
Profit for the period				**5,087**
Development portfolio	711,276	100,379	–	**811,655**
Other segment assets	–	227,103	94,399	**321,502**
Total segment assets	**711,276**	**327,482**	**94,399**	**1,133,157**
Total segment liabilities	**394,441**	**365,562**	**5,552**	**765,555**
Other segment information				
Capital expenditures	–	–	683	**683**

The Group's management separates the "Development portfolio" assets allocated within operating segments. The criteria of separation is orientation of the assets on the fulfilling of the Group's mission. "Development portfolio" includes loans to banks and loans to customers excluding impaired loan projects and the investments in debt securities purchased upon initial placement by the issuer.

(Thousands of euros)

25. Segment information (continued)

30 June 2017 (unaudited)	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	11,390	13,435	19	**24,844**
Fee and commission income	302	–	–	**302**
Net gains from available-for-sale investment securities	–	4,553	–	**4,553**
Income from lease of investment property	–	–	2,049	**2,049**
Reversal of allowance for impairment of other assets	–	–	27	**27**
Other segment income	2	–	83	**85**
Total income	**11,694**	**17,988**	**2,178**	**31,860**
Interest expenses	(7,313)	(7,857)	–	**(15,170)**
Fee and commission expense	(9)	(60)	(2)	**(71)**
Net losses from dealing in foreign currencies and operations with derivatives	–	(852)	11	**(841)**
Allowance for impairment of financial assets	(3,781)	–	–	**(3,781)**
Other segment expenses	(89)	(83)	(477)	**(649)**
Segment results	**502**	**9,136**	**1,710**	**11,348**
Other unallocated expenses				**(9,061)**
Profit for the period				**2,287**
Development portfolio	490,923	65,631	–	**556,554**
Other segment assets	9,896	340,413	95,806	**446,115**
Total segment assets	**500,819**	**406,044**	**95,806**	**1,002,669**
Total segment liabilities	**276,007**	**324,495**	**9,403**	**609,905**
Other segment information				
Capital expenditures	–	–	70	**70**

During the six months of 2018, the Group's revenue from lease operations with two external counterparties (30 June 2017: two external counterparties) exceeded 20% of the Group's total revenue (six months ended 30 June 2018: EUR 1,408 thousand; six months ended 30 June 2017: EUR 1,511 thousand).

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 years ended 30 June 2018 and 30 June 2017 is presented in the table below:

	30 June 2018 (unaudited)				*30 June 2017 (unaudited)*			
	Russia	*Other member countries*	*Other countries*	*Total*	*Russia*	*Other member countries*	*Other countries*	*Total*
Interest income calculated using the EIR method	4,567	12,326	4,700	**21,593**	4,130	7,035	4,977	**16,142**
Other interest income	3,756	161	4,026	**7,943**	330	175	8,192	**8,697**
Income from lease of investment property	1,947	85	–	**2,032**	1,942	107	–	**2,049**
Non-current assets (investment property)	7,534	13,328	–	**20,862**	7,536	14,324	–	**21,860**

(Thousands of euros)

25. Segment information (continued)

Geographical information (continued)

The geographical concentration of the Group's assets and liabilities based on the location of the Group's counterparties as at 30 June 2018 and 31 December 2017 is presented below:

	30 June 2018 (unaudited)										
	Russian Federation	***Republic of Bulgaria***	***Romania***	***Slovak Republic***	***Hungary***	***Mongolia***	***Socialist Republic of Vietnam***	***Czech Republic***	***Republic of Cuba***	***Other countries***	***Total***
Assets											
Cash and cash equivalents	1,092	805	329	11,255	–	–	–	5	–	43,739	**57,225**
Deposits with banks and other financial institutions	11,326	–	–	–	–	–	–	–	–	22,970	**34,296**
Derivative financial assets	49	–	–	–	–	–	–	–	–	1,298	**1,347**
Securities at fair value through other comprehensive income	12,476	14,980	10,002	1,144	–	–	–	34,495	–	120,749	**193,846**
Securities at amortized cost	–	–	–	–	–	–	–	–	–	41,422	**41,422**
Long-term loans to banks	–	–	–	–	–	55,205	25,031	–	49,366	34,514	**164,116**
Loans to customers	101,863	111,253	69,770	89,415	29,515	23,927	–	50,053	–	69,831	**545,627**
Other financial assets	369	–	–	–	2	6	–	–	–	333	**710**
Assets	**127,175**	**127,038**	**80,101**	**101,814**	**29,517**	**79,138**	**25,031**	**84,553**	**49,366**	**334,856**	**1,038,589**
Liabilities											
Due to banks and other financial institutions	–	5,000	9,882	–	4,878	–	–	40,010	–	25,171	**84,941**
Derivative financial liabilities	12,769	–	1,106	–	–	–	–	–	–	22,695	**36,570**
Long-term loans of banks	–	–	–	–	12,195	–	–	–	–	33,882	**46,077**
Long-term securities issued	306,957	–	215,174	30,686	–	–	–	28,936	–	–	**581,753**
Other financial liabilities	957	758	–	–	–	83	–	–	–	11	**1,809**
Liabilities	**320,683**	**5,758**	**226,162**	**30,686**	**17,073**	**83**	**–**	**68,946**	**–**	**81,759**	**751,150**

(Thousands of euros)

25. Segment information (continued)

Geographical information (continued)

	31 December 2017										
	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Hungary*	*Mongolia*	*Socialist Republic of Vietnam*	*Czech Republic*	*Republic of Cuba*	*Other countries*	*Total*
Assets											
Cash and cash equivalents	1,209	792	226	35	–	–	–	36	–	63,799	**66,097**
Deposits with banks and other financial institutions	3,082	–	–	–	–	32,132	–	–	–	10,675	**45,889**
Derivative financial assets	3,340	–	–	–	–	–	–	–	–	4,421	**7,761**
Available-for-sale investment securities	11,947	30,098	–	10,010	13,817	–	–	34,107	–	115,448	**215,427**
Loans to banks	89,545	–	–	–	–	33,735	25,252	–	49,863	3,240	**201,635**
Loans to customers	81,817	57,694	73,185	60,464	42,910	24,425	–	49,967	–	72,052	**462,514**
Other financial assets	382	6	–	–	5	5	–	1	–	329	**728**
Assets	**191,322**	**88,590**	**73,411**	**70,509**	**56,732**	**90,297**	**25,252**	**84,111**	**49,863**	**269,964**	**1,000,051**
Liabilities											
Due to banks and other financial institutions	1,460	–	–	7,508	–	–	–	1,566	–	54,977	**65,511**
Derivative financial liabilities	4,480	–	1,213	–	–	–	–	–	–	9,380	**15,073**
Long-term loans of banks	9,959	7,470	–	–	20,367	–	–	–	–	57,796	**95,592**
Long-term securities issued	266,191	–	212,869	30,153	–	–	–	–	–	–	**509,213**
Other financial liabilities	1,658	33	15	8	–	237	–	–	–	197	**2,148**
Liabilities	**283,748**	**7,503**	**214,097**	**37,669**	**20,367**	**237**	**–**	**1,566**	**–**	**122,350**	**687,537**

Other countries include non-member countries.

(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.

The volumes of related party transactions, outstanding balances as at 30 June 2018 and 31 December 2017, and related expenses and income for the six months ended 30 June 2018 and 2017 are as follows:

		30 June 2018 (unaudited)	***31 December 2017***
	Related party	***Carrying amount***	***Carrying amount***
Interim consolidated statement of financial position			
Current customer accounts	Key management personnel	1,342	1,420
Other liabilities	Key management personnel	624	593

		30 June 2018 (unaudited)	***30 June 2017 (unaudited)***
	Related party	***Income/(expense)***	***Income/(expense)***
Interim consolidated income statement			
Interest expenses on current customer accounts	Key management personnel	(17)	(27)
Net interest expense after allowance for loan impairment		**(17)**	**(27)**
Expenses from operating activities		**(17)**	**(27)**
Employee benefits	Key management personnel	(836)	(669)
Compensation for travel expenses and medical insurance	Key management personnel	(36)	(32)
Operating expenses		**(872)**	**(701)**
Net loss for the period		**(889)**	**(728)**

27. Capital adequacy

Capital adequacy ratio is the most important financial indicator characterizing the sustainability of credit institutions and is estimated as the ratio of capital base to risk-weighted assets expressed as a percentage. Approval of the capital adequacy ratio is the exclusive competency of the Bank’s Council.

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 of 30 June 2018, this minimum level was 8% (31 December 2017: 8%).

Taking into account the Bank’s status as the multilateral development institution and the structure of the Bank’s member countries and respective decision of the Council, the capital adequacy ratio was set at the level of not less than 25% as at 30 June 2018 (31 December 2017: 25%).

(Thousands of euros)

27. Capital adequacy (continued)

The following table shows the composition of the Group's capital position computed in accordance with the Basel Accord (Basel II) as at 30 June 2018 and 31 December 2017.

	30 June 2018 (unaudited)	***31 December 2017***
Capital		
Tier 1 capital	351,199	380,745
Tier 2 capital	9,257	13,988
Total regulatory capital	**360,456**	**394,733**
Risk-weighted assets		
Credit risk	896,578	822,189
Market risk	147,615	177,273
Operational risk	41,863	43,411
Total risk-weighted assets	**1,086,056**	**1,042,873**
Total capital expressed as a percentage of risk-weighted assets, % ("capital adequacy ratio")	33.19%	37.85%
Total tier 1 capital expressed as a percentage of risk-weighted assets, % ("tier 1 capital adequacy ratio")	32.34%	36.51%

28. Subsequent events

On 12 July, the Government of Romania made a contribution of EUR 4,000 thousand to the Bank's share capital. As a result, the paid-in capital of the International Investment Bank amounted to EUR 318,962 thousand, and Romania increased its share in the paid-in capital to 7.04%.

(The end).

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