

## IMPORTANT NOTICE

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 DIRECTIVE 2003/71/EC, AS AMENDED (THE “**PROSPECTUS DIRECTIVE**”), 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.

**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). THE BONDS ARE OFFERED AND SOLD ONLY TO INVESTORS IN ROMANIA OR SUCH OTHER JURISDICTIONS WHERE IT IS POSSIBLE TO DO SO WITHOUT THE NEED TO PUBLISH A PROSPECTUS OR UNDERTAKE ANY OTHER FORMALITIES WHATSOEVER UNDER APPLICABLE LAW, IN RELIANCE ON 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 FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE BONDS DESCRIBED THEREIN.**

**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 Co-Lead 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 Co-Lead Managers.

None of the Co-Lead Managers nor any of their affiliates accept any responsibility whatsoever for the contents of this electronic transmission or the Offering Circular or for any other statement made or purported to be made by them, or on their behalf, in connection with the Issuer or the securities or the Offering referred to herein. The Co-Lead Managers and each of their affiliates disclaim all and any liability whether arising in tort, contract, or otherwise which they might otherwise have in respect of this electronic transmission, the Offering Circular or any such statement. No representation or warranty, express or implied, is made by the Co-Lead Managers or any of their affiliates or advisors as to the accuracy, completeness or sufficiency of the information set out in this electronic transmission or the Offering Circular.



**International Investment Bank**

**EUR 100,000,000 (or the equivalent thereof in RON and/or a combination of EUR and RON) aggregate minimum principal amount 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 Statutes of the International Investment Bank attached to the Establishment Agreement, registered with the Secretariat of the United Nations on 1 December 1971 under number 11417, is offering EUR 100,000,000 (or the equivalent thereof in RON and/or a combination of EUR and RON) minimum principal amount Bonds, floating interest rate RON-denominated bonds and fixed interest rate EUR-denominated bonds, and having a maturity of 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 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 agreement with the Co-Lead Managers and notified to investors through a pricing notification published on the Issuer’s web site <https://www.iib.int/en>, on each Co-Lead Manager’s website, <http://www.btcapitalpartners.ro> and <https://www.bcr.ro>, respectively, and on the website of the Bucharest Stock Exchange [www.bvb.ro](http://www.bvb.ro), on 20 September 2017. The interest on the EUR Bonds shall be paid in annual arrears, while interest on the RON Bonds shall be paid in quarterly 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 28 September 2017. 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 Baa1 with positive outlook by Moody’s Investors Service, Inc. (“**Moody’s**”), BBB with stable 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 stable 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*”.

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CO-LEAD MANAGERS

**BT CAPITAL PARTNERS S.A.**

**BANCA COMERCIALA ROMANA S.A.**

Offering Circular dated 15 September 2017

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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 21 August 2017, the Issuer has appointed BT Capital Partners S.A. as lead manager, bookrunner and calculation agent ("**BTCP**"), 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. Pursuant to a mandate letter dated 1 September 2017, BTCP has engaged Banca Comerciala Romana S.A. as co-lead manager (BT Capital Partners S.A and Banca Comerciala Romana S.A. are hereinafter each referred to as a "**Co-Lead Manager**"), and collectively referred to as the "**Co-Lead Managers**").

Neither the Co-Lead 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 Co-Lead 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 Co-Lead 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 Co-Lead 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 Co-Lead Manager to any person to subscribe to or purchase any Bonds. In addition, neither the Issuer nor the Co-Lead 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 Co-Lead 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 Co-Lead 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 REGULATIONS 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 Co-Lead 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 Co-Lead Managers and certain of its affiliates may acquire a portion of the Bonds for their own accounts.

Neither the Issuer nor the Co-Lead 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 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. 1/2006 on issuers and operations with securities, as amended, 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 2016 and, respectively, 30 June 2017 (the “**Interim Unaudited Financial Statements**”) and the audited consolidated financial statements of the Issuer’s group for the years ended 31 December 2014, 31 December 2015 and, respectively, 31 December 2016 (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 2017 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 does 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, and references to "RUB" are to the currency of the Russian Federation.

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 2017. 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.*

<b>Issuer</b>	International Investment Bank  <i>7 Mashi Poryvaevoy St., Moscow, 107078, Russian Federation</i>
<b>Co-Lead Managers</b>	BT Capital Partners S.A.  <i>74-76 Constantin Brancusi Street, Brancusi Business Center, ground floor, Cluj-Napoca, Cluj county, Romania (performing the functions of Lead-manager, bookrunner and calculation agent in connection with the Offering)</i>  Banca Comerciala Romana S.A.  <i>5 Regina Elisabeta Blvd., 3rd district, Bucharest, Romania (performing the functions of co-lead manager and bookrunner in connection with the Offering)</i>
<b>Paying Agent</b>	Banca Transilvania S.A.  <i>8 George Baritiu Street, Cluj-Napoca, Cluj county, Romania</i>
<b>Registrar and depository</b>	Depozitarul Central S.A.  <i>34-36 Carol I Blvd., 3rd, 8th and 9th floors Bucharest, Romania</i>
<b>Aggregate minimum principal value of the Bonds offered</b>	The aggregate minimum principal amount of the Bonds under the Offering is of EUR 100,000,000 (or the equivalent thereof in RON and/or a combination of EUR and RON). The final aggregate minimum and/or, if the case, maximum principal value of the RON Bonds offered hereunder and of the EUR Bonds offered hereunder shall be established by the Issuer in agreement with the Co-Lead Managers, and announced to investors through the Pricing Notification which shall be published on the Issuer’s web site <a href="https://www.iib.int/en">https://www.iib.int/en</a> , on each Co-Lead Manager’s website <a href="http://www.btcapitalpartners.ro">http://www.btcapitalpartners.ro</a> and <a href="https://www.bcr.ro">https://www.bcr.ro</a> , respectively, and on the website of the Bucharest Stock Exchange <a href="http://www.bvb.ro">www.bvb.ro</a> , on 20 September 2017.
<b>Denomination</b>	RON, for RON Bonds and EUR, for EUR Bonds.
<b>Form of the Bonds</b>	The Bonds are issued in registered form and evidenced by book-entry (in Romanian: <i>obligatiuni nominative in forma dematerializata</i> ).
<b>Nominal Value</b>	RON 10,000 for RON-denominated Bonds and EUR 10,000 for EUR-denominated Bonds.

<b>Transaction Date</b>	21 September 2017
<b>Issue Date</b>	25 September 2017
<b>Maturity Date</b>	The maturity date of the RON Bonds offered hereunder and of the EUR Bonds offered hereunder shall be established by the Issuer in agreement with the Co-Lead Managers, and announced to investors through the Pricing Notification which shall be published on the Issuer's web site <a href="https://www.iib.int/en">https://www.iib.int/en</a> , on each Co-Lead Manager's website <a href="http://www.btcapitalpartners.ro">http://www.btcapitalpartners.ro</a> and <a href="https://www.bcr.ro">https://www.bcr.ro</a> , respectively, and on the website of the Bucharest Stock Exchange <a href="http://www.bvb.ro">www.bvb.ro</a> , on 20 September 2017.
<b>Issue price per Bond</b>	Both RON Bonds and EUR Bonds, are issued at their respective Nominal Value.
<b>Interest Rate</b>	RON Bonds shall bear the floating interest rate, while EUR Bonds shall bear the fixed rate, established by the Issuer in agreement with the Co-Lead Managers, and announced to investors through the Pricing Notification which shall be published on the Issuer's web site <a href="https://www.iib.int/en">https://www.iib.int/en</a> , on each Co-Lead Manager's website <a href="http://www.btcapitalpartners.ro">http://www.btcapitalpartners.ro</a> and <a href="https://www.bcr.ro">https://www.bcr.ro</a> , respectively, and on the website of the Bucharest Stock Exchange <a href="http://www.bvb.ro">www.bvb.ro</a> , on 20 September 2017 (see " <i>Subscription and sale – Establishment of the principal value, Interest Rate and maturity of RON Bonds and EUR Bonds</i> ").
<b>Interest Payment Date</b>	Interest will be payable in annual arrears on 25 September 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 25 December, on 25 March, on 25 June and 25 September of each year from and excluding the Issue Date and until and including the relevant Maturity Date for RON Bonds.
<b>Status and ranking of the Bonds</b>	The obligations under the Bonds will constitute direct, unsecured, unconditional and unsubordinated obligations of the Issuer ranking <i>pari passu</i> among themselves and as to the order of their satisfaction and at least <i>pari passu</i> 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 <i>vice versa</i> .
<b>Redemption</b>	The Bonds shall be redeemed at par on their respective Maturity Date.
<b>Early redemption at the Issuer's option</b>	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.

<b>Early redemption upon an Event of Default</b>	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 (see “ <i>Terms and conditions of the Bonds – 13. Early repayment of the Bonds on default</i> ”).
<b>Covenant</b>	Each Bondholder will have the right to require the Issuer to repurchase each Bond (but not some only) held by that Bondholder at the Nominal Value together with an amount equal to accrued interest, subject to, and pursuant to, the procedure described in “ <i>Terms and conditions of the Bonds – 14. Covenant</i> ”, if a Covenant Triggering Event occurs and is continuing.
<b>Gross-up</b>	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, Condition 12.5 “ <i>Gross-up</i> ”) 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.
<b>Taxation</b>	For certain considerations regarding the taxation of payments related to the Bonds see “ <i>Taxation</i> ”.
<b>Governing law and jurisdiction</b>	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.
<b>Listing</b>	Application has been made to the Bucharest Stock Exchange for the Bonds to be admitted to trading on the Regulated Spot Market thereof (see “ <i>Subscription and sale – Listing on the Bucharest Stock Exchange</i> ”). The Issuer may apply for admission of the Bonds to trading on other regulated markets in the European Union.
<b>Use of proceeds</b>	The net proceeds of the Bonds issue shall be used by the Issuer to expand its existing loan portfolio and finance activities in Romania, in accordance with its mission and development strategy (see “ <i>Description of the Issuer – Mission</i> ” and “ <i>Description of the Issuer – Strategy</i> ”).
<b>Risk factors</b>	Investing in the Bonds involves risk. See the “ <i>Risk factors</i> ” section for a description of certain of the risks investors should carefully consider before investing in the Bonds.
<b>Selling and transfer restrictions</b>	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 “ <i>General information – Selling and transfer restrictions</i> ”.

## **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 State countries 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***

In response to the global economic and financial crisis emerged in 2008, legislators and financial regulators in various jurisdictions worldwide, including Romania, the Russian Federation, Mongolia, Vietnam, Bulgaria and other states, undertook unprecedented intervention designed to counteract declining levels of economic activity, stabilise the global and local financial sectors, stimulate new lending and support systemically important institutions at risk of failing.

However, recent developments, particularly in the Eurozone, have demonstrated that there continues to be significant uncertainty. From April 2010 to date, financial markets have been periodically negatively impacted by ongoing fears surrounding the large sovereign debts and/or fiscal deficits of several countries in Europe (primarily Cyprus, Greece, Ireland, Italy, Portugal and Spain) and the possibility of one or more defaults on sovereign debt. Should any of these nations default on their debt, or experience a significant widening of credit spreads, major financial institutions and banking systems throughout Europe could be destabilised, resulting in the further spread of the ongoing economic crisis, potentially adversely impacting Member States and, consequently, the Issuer.

In May 2012 and March 2013, the uncertainty surrounding Greece's possible exit from the Eurozone and a levy on certain bank deposits in Cyprus, respectively, further weakened already strained market conditions. Fears that some countries in the Eurozone might default on their obligations, were rekindled during 2014 and 2015 when doubts as to Greece's ability to find a long-term solution to its funding needs gave rise to speculation around its potential exit from the Eurozone. Also, the vote cast in the United Kingdom referendum in favour of United Kingdom's exit from the European Union has spurred significant volatility in the global financial markets. 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.

Social and economic disruptions stemming from the crises in Europe have affected, and may continue to affect 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.

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 the Russian Federation, Mongolia, Vietnam and to some extent the "new" EU Member States such as Bulgaria, Czech Republic, Romania, Slovakia and Hungary, 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. In November 2014, the Russian Finance Minister estimated the annual cost of sanctions to be of 2% of GDP, such estimate being restated

two years later by the Russian Deputy Economic Development Minister. Other reports (for example, reports prepared by IMF) broadly concur with Russian estimates on the annual cost of sanctions.

Although the Issuer is an international organisation which is, in principle, exempt 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, 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.

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. 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 2016 and Q1 2017.

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, as well as the prolongation of the ongoing Russian recession, could have a further adverse effect on the Russian economy and economy of the Member States and consequently, a material adverse effect on the Group's business, financial condition, results of operations and prospects.

#### ***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 potential 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.

#### ***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. As at 30 June 2017, the Issuer had a corporate gross loan portfolio in the amount of EUR 342.7 million, out of which 20% was provided to corporate clients based in the Russian Federation, 17% to corporate clients based in each of Republic of Bulgaria and in Romania, 10% to corporate clients based in the Czech Republic, 7% to corporate clients based in Hungary, 6% to corporate clients based in Slovak Republic, 1% to corporate clients based in Mongolia and 22% to corporate clients based in other states.

In terms of sector concentration, as at 30 June 2017, 22% out of the Issuer's gross loan portfolio to corporate clients was provided to corporate clients active in the leasing industry and the same percentage to corporate clients active in the metal working industry, 16% was provided to clients active in production and transmission of electricity, 8% to clients active in food and beverages, 7% to clients active in the communications industry, 6% to clients active in manufacturing of electrical equipment industry, 5% to clients active in consulting services, 4% to clients active in each of agriculture and transport industries and 6% to clients active in other industries.

The Issuer's portfolio of loans extended to banks is also considerably concentrated. As at 30 June 2017, the outstanding value of each of the loans extended by the Issuer to top four 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 2017, the Issuer's exposure to such major bank clients amounted to EUR 99.8 million, out of the total EUR 164.4 million long-term loans extended by the Issuer to banks. As at 30 June 2017, 57% of the long-term loans provided to banks were extended to banks based in the Russian Federation, 26% to banks based in Mongolia, 16% to banks based in Vietnam and 1% in the Republic of Belarus.

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 limit for a single currency position is set at 10% of the capital and the limit for cumulative currency positions is set at 15% of the capital.

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 income 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. Furthermore, increases in the strength of the EUR against other currencies could markedly reduce the Issuer's financial results as reported in EUR.

#### ***Market risk in connection with the investment portfolio***

As of 30 June 2017, consolidated available-for-sale investment securities balance of the Group was EUR 233.7 million. The majority of the portfolio is composed of sovereign bonds denominated in EUR and USD. Government bonds account for 38% 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 62% 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 2017, investment grade bonds represented 62% of the Issuer's total available-for-sale portfolio.

***Changes to IFRS for recognition and measurement methods for financial instruments may adversely affect the Issuer's financial results***

Changes to IFRS have been proposed in recent years, and further changes may be proposed in the future. Prospective changes in accounting standards as well as those imposing stricter or more extensive requirements to carry assets at fair value, could also impact the Issuer's capital needs. 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.

The Group does not particularly expect prospective changes in accounting standards due to IFRS 9 "Financial Instruments" issued in 2004, replacing IAS 39 "Financial Instruments: Recognition and Measurement" to have a significant effect on its balance sheet or equity, other than potentially resulting in an increase in the level of allowances (as a result of the impairment requirements under the standard). The Group will assess in more detail the potential impact of IFRS 9, as well as possible changes related to the accounting for the time value of options, forward points or the currency basis spread in the following period.

The Group plans to adopt the new standard on the required effective date. On the whole, the Group does not expect that the adoption of the new requirements to have a significant impact on the Issuer's capital adequacy ratio. However, we cannot exclude the possibility that these and any other changes to IFRS that may be proposed in the future could have a material adverse effect on our 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 (consisting of representatives of the Member States) and implemented only relatively recently at the level of the Issuer. Also, the Issuer is currently preparing the implementation of the IFRS 9 by arranging detailed analysis of the technical and methodological components of the new standards, so that the transition to such new standards to be as risk free as possible. 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 2016 compared to 31 December 2014), the Issuer's net loan portfolio grew by 51%, whereas the Issuer's investment securities portfolio registered a 65.7% increase.

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 Statutes 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 Regulation on Withdrawal of Member States from the International Investment Bank approved by the Council in 2012. 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. The existing withdrawal procedure provides that mutual obligations of the withdrawn Member States and the Issuer are settled based on a "fair value" evaluation thereof.

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.

Withdrawal of Romania from the Issuer would also constitute a Covenant Triggering Event under the Terms and Conditions of the Bonds (see "*Terms and Conditions of the Bonds - 14. Covenant*").

***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 in, default under obligations and downturns in the economies of, Member States, as well 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 Issuer's decision making process may hamper the adoption of decisions and the Issuer's governance model is subject to changes***

The Establishment Agreement and Statute provide that decision-making in the Council, the supreme governance body of the Issuer, is based on the "one country - one vote" principle. While this principle ensures equality of the Member States irrespective of their relative contribution to the paid-in capital of the Issuer, it also means that a single Member State can block certain key decisions which may be necessary for further development of the Issuer. A delay in the adoption of such decisions may adversely affect the Issuer's business, prospects, financial condition, cash flows and results of operations.

At the Issuer's Council 101<sup>st</sup> meeting of May 2014 held in Havana, Cuba, the Member States have adopted a protocol amending the Establishment Agreement and the Statutes, pending ratification by all Member States. Among the most important changes proposed by the protocol is the transition from the current two-tier (*i.e.*, Council and Board) to a three-tier governance system (*i.e.*, Board of Governors, Board of Directors and Management Board), as well as

from the "one country – one vote" to a qualified majority voting system (see "*Description of the Issuer – Management and governance – Proposed management changes*"). The implementation of the voting system based on qualified majorities may facilitate the control by one member or a group of members of the decision-making process at the level of the Issuer, a situation which may, in turn, render the Issuer less attractive for potential partners, clients and investors and hence affect the business prospects, results of operations and financial condition of the Issuer and consequently, the trading price of the Bonds.

***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.

***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 "**Constitutive Documents**"), registered with the Secretariat of the United Nations on 1 December 1971 under number 11417.

The Issuer is an entity under, and subject to, public international law. The Issuer's existence, powers, privileges, immunities, liabilities and operations are subject to and governed by the Constitutive 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 Council and other management 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 Baa1 with positive outlook by Moody's, BBB with a stable outlook by Fitch, BBB with a stable outlook by S&P and A with a stable 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.

Rating downgrade to the sub-investment grade or withdrawal of the credit ratings by at least two international rating agencies would also constitute a Covenant Triggering Event under the Terms and Conditions of the Bonds (see "*Terms and Conditions of the Bonds - 14. Covenant*").

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***

The Group is routinely 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***

Although the Issuer believes it has highly qualified personnel, there is generally a considerable shortage of adequately qualified personnel in the banking sectors of Russia (as the country of residence of the Issuer) and other Member States, particularly in such areas as risk management and credit assessment. If the shortage of adequately qualified banking personnel persists, the Issuer's ability to conduct its business may be affected which could, in turn, affect the Issuer's financial results. In addition, the shortage of adequately qualified banking personnel may cause the Issuer to increase expenditures to implement additional financial and other incentives in order to retain its existing personnel and recruit additional personnel.

***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 additional 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 for their own tax adviser's 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 controls***

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 Baa1 with positive outlook by Moody's, BBB with stable outlook by Fitch, BBB with a stable outlook by S&P and A with stable 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 in EUR Bonds, are advised that the Central Depository procedures allowing for the settlement of such 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.

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 consolidate and to expand its existing loan portfolio and finance activities in Romania, in accordance with its mission and development strategy (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 Constitutive 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.

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 intergovernmental banking, financial and economic, 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. 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, 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 - Re-launch Programme and 2013-2017 Strategy. Main achievements.*”).

The Issuer’s authorized capital is of EUR 1,300 million. As at 30 June 2017, the Issuer’s paid-in capital amounted to EUR 313.05 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 48.72%. As at the same reference date, Cuba’s share in the Issuer’s paid-in capital is at 1.71% and the share of Asian members of the Issuer (Vietnam and Mongolia) is at 1.65%. Russia’s share in the Issuer’s paid-in capital is 47.92%, representing a decrease of more than 1.5 percentage points compared to its share as of 31 December 2015.

The Issuer’s principal office is located at 7 Mashi Poryvaevoy str., Moscow, 107078, Russian Federation. Although based in the Russian Federation, being an international organization, 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](mailto:ir@iibbank.com).

### THE CONSTITUTIVE DOCUMENTS

The Establishment Agreement and the Statutes represent the Issuer’s constitutive documents. They set forth, among others, the Issuer’s mission and purposes, its governance structure, the scope of operations which may be undertaken by the Issuer, as well as the rules regarding the withdrawal of members and the admission of new members.

The Constitutive 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 Council, 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 Constitutive Documents. Privileges and immunities granted to officials of the Issuer (including representatives of the Member States in the Issuer’s Council) are applicable to such persons while in official capacity and are vested therewith only to serve the interests of the Issuer. Member States, the Issuer’s Council and the Chairman of the Board, as the case may be, have the right, and are under the obligation, to waive the immunity of the respective representative or official if, in their opinion, such immunity would prevent the administration of justice.

Certain amendments to the Constitutive Documents, mainly aiming at aligning the Issuer's governance structure and voting system with the best governance practices adopted by modern multilateral development banks, have been adopted and the according Protocol amending the Establishment Agreement and the Statutes (the "**Amending Protocol**") was opened for signing at the Issuer's Council 101<sup>st</sup> meeting of May 2014 held in Havana, Cuba. As of the date hereof, the Amending Protocol was signed by all the Member States. The entry into force of the Protocol is currently subject to ratification being conducted by all Member States. As of 30 June 2017, six out of nine Member States have ratified the Amending Protocol (save for the Czech Republic, the Slovak Republic and Mongolia, who are currently completing the final stages of the intrastate ratification procedures).

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 has been subsequently joined by other ECAs. Also, in October 2016, the Issuer signed a memorandum of understanding with the European Investment Fund ("**EIF**"), which formalizes the partnership between the two financial institutions in relation to the anticipated establishment of the Central Europe Fund of Funds ("**CEFoF**") to be set up and managed by the EIF. This memorandum represents the Issuer's first involvement in the establishment of an investment structure, which is expected to enable the Issuer to support the development of venture capital and private equity financing in the CEE region through its CEFoF share (in the amount of up to EUR 10 million). In January 2017, the Issuer also joined a leading financial association – the Institute of International Finance ("**IIF**"), which brings together about 500 companies from 70 countries, with the mission to promote sustainable development of the global banking and financial system by providing members a wide range of services, as well as representing their interests in a dialogue with global regulatory authorities.

## **SUBSIDIARY AND REGIONAL OFFICE**

The Group currently consists of the Issuer and one subsidiary, CJSC "IIB Capital" (the "**Subsidiary**"). The Subsidiary is established in the form of a non-public joint stock company, being 100% owned by the Issuer. The Subsidiary's principal office is located at 107078 Moscow, Skornyyazhny lane 6, building 1.

The Subsidiary was established in 2012, in order to take over several non-core activities of the Issuer, including settling the non-performing loans granted by the Issuer, and to enable the Issuer to focus on its core objective, that is 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 buildings complex. 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 44,550 (approximately EUR 1,100 at the exchange rate effective at the date of incorporation).

On 14 April 2015, the Issuer opened its first regional 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 2017, the Issuer's regional office identified, arranged and assisted in conclusion of credit facilities and bank guarantees agreements with the clients in Slovakia, Hungary and Romania for the overall volume exceeding EUR 160 million.

## **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 97<sup>th</sup> 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 98<sup>th</sup> 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 investment grade ratings from leading international rating agencies – Fitch Ratings (BBB), Moody's (Baa1), Standard&Poor's (BBB), and also the Chinese agency Dagong (A); (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 Issuer's Constitutive Documents and phasing in a three-tier corporate management system; (v) building a qualitatively new organisational 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:

- the Issuer's assets have grown almost by 2.5-fold, reaching EUR 881 million at end of 2016;
- loan agreements were signed for a total of about EUR 670 million (of which over EUR 650 million was disbursed) as support for priority sectors of the economy of Member States. The total value of SME support projects under intermediated financing totalled approximately EUR 200 million, of which over EUR 170 million was disbursed; and
- in line with the implementation of the resolutions adopted at the 99th meeting of the Issuer's Council (in June 2013), the paid-in authorized capital of the Bank was increased by more than EUR 100 million. An additional EUR 40 million paid-in capital increase resulted from Hungary re-gaining membership with the Issuer.

### **Key objectives for the remaining period of 2017**

During the remaining period of 2017, the Issuer's main objective is to ensure a smooth transition to the implementation of the 2018-2022 Strategy, while continuing the reformation and modernization of the management

system, as well as the reformation of human resources in order to increase overall professional skills and efficiency of the Issuer's employees. As part of the transition to the new three-tier corporate management system, it is crucial to gradually adapt the existing business processes without affecting the Issuer's day-to-day operations.

Also, in close cooperation with the delegations of the Member States, the Issuer will prepare 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.

### **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 107<sup>th</sup> 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).

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.
- **Maintaining and improving investment grade rating**. The Issuer was rated BBB- with stable outlook by Fitch in December 2013 and A3 with stable outlook by Moody's in August 2014. The outlook by Fitch was changed from stable to negative in March 2014 mainly due to the downgrade of the Russian sovereign rating. In February 2015, the outlook by Fitch was changed to stable, the rating agency having cited a partial insulation of the Issuer from the recent Russian turmoil mainly due to the EUR being the Issuer's functional currency and the Issuer being exempted from EU sanctions against Russian credit institutions due to its supranational status. In December 2016, the outlook by Fitch was upgraded to BBB with stable outlook. The rating by Moody's was changed to Baa1 with stable outlook in March 2015 and to Baa1 with positive outlook in May 2017. According to the Moody's official statement, change of the outlook was due to, among others, the increased diversification of the Issuer's loan portfolio and the maintenance of relatively strong asset quality. In June 2016, S&P assigned the Issuer a BBB rating with stable outlook primarily on the basis of the Issuer's strong capitalization. The same rating was re-affirmed in June 2017. The strategy of the Issuer includes obtaining at least an A- rating from an international rating agency, primarily by executing the following tasks: (i) growth and diversification of its loan portfolio, (ii) monitoring and management of the level of troubled assets, (iii) diversification and enhancement of the quality of its treasury portfolio and (iv) control over capital adequacy, financial leverage and risk profile.
- **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.

## 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. In order to increase the pool of available resources, the Issuer

intends to co-finance assignments under the TAF by up to 25% of the initial contribution by the Slovak Republic, and to actively manage temporarily unallocated resources in order to grow this amount further.

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.

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 direct taxes and charges (with the exception of charges for public utilities and other services), 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.

Furthermore, according to the Constitutive Documents, the Issuer itself, representatives of the Member States in the Issuer’s Council and officials of the Issuer enjoy such privileges and immunities on the territories of the Member States as are necessary to carry out their functions and attain the purposes set forth in the Constitutive Documents.

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 Constitutive 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 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. 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.<sup>1</sup>

### **Strong capital base**

The authorised capital of the Issuer is of EUR 1.3 billion, out of which EUR 313.05 million represent the paid-in capital of the Issuer (following the contribution by Hungary of 9 March 2016).

As at 30 June 2017, out of the unpaid amount of EUR 986.9 million, EUR 811.4 million represent callable capital divided between the Member States and payable by the Member States on call, in the unlikely case that the Issuer

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<sup>1</sup> 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.*

fails to meet its obligations, and EUR 175.5 million represent unsubscribed quota, namely the amount which is open for contribution by the actual or new members of the Issuer.

The recent amendments to the Constitutive Documents, adopted at the Issuer's Council 101<sup>st</sup> meeting of May 2014 held in Havana, Cuba, currently pending ratification by all Member States, provide for an increase of the authorized capital up to the amount of EUR 2 billion. This increase of the Issuer's authorized capital is intended to provide room for potential contributions by new members of the Issuer or for increasing shares both in paid-in and callable capital of the current Member States.

The total equity of the Issuer (including retained profits and other equity funds) amounted to EUR 390.2 million as of 31 December 2016 and to EUR 392.7 million as of 30 June 2017.

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**

Starting with 2013, the Member States have become increasingly more active in the Issuer's activities, including by adopting, and commencing the implementation of a number of support measures. At the Issuer's Council 99<sup>th</sup> meeting of June 2013, held in Bratislava, the Member States agreed to inject an additional amount of at least EUR 100 million in the Issuer's paid-in capital, in order to enable the Issuer to finance the key objectives under the Re-launch Documents, thus re-affirming the Member States' common commitment to support the mission-driven status of the Issuer. As of 30 June 2017, all the Member States except Czech Republic and Romania (whose aggregate *pro rata* allocation of the EUR 100 million commitment is of EUR 20.2) have participated in the above capitalization programme. Romania has recently approved a contribution to the Issuer's capital, which is to be included in the state budget for 2018 and expected to be disbursed accordingly. The Czech Republic is currently in the process of finalizing intrastate procedures necessary to approve its participation in the capitalisation programme.

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 State 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 Council 99<sup>th</sup> 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.

In May 2014, during the Issuer's Council 101<sup>st</sup> meeting held in Havana, Cuba, the Member States approved a programme containing specific support measures with respect to the Issuer's activity. The basic points included in the support programme are the following:

- The Member States agree to actively promote the Issuer's mission and activities, and affirm that recognising the Issuer in the international community as a multilateral development bank with a supra-national status, benefitting of immunities and privileges similar to those of other multilateral development banks plays a crucial role in the expansion of the Issuer's activity; during meetings with rating agencies, several heads of official Delegations of the Member States have expressed their support for the further development of the Issuer's activity;
- The Member States confirm their support for the Issuer in identifying projects on their territories. Part of the Issuer's ongoing and prospective projects have been identified in cooperation with its Member States;



- 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 State’s 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 Central Bank of the Russian Federation included the Issuer’s bonds on its Lombard list and, pursuant to the Decree of the Government of the Russian Federation No. 852 dated 23 August 2014, 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. 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, and the Czech Republic, Bulgaria and Hungary, who have expressed their openness to support bond issuances by the Issuer on their territory. During 2015, the Issuer also successfully placed RON 111,000,000 (approx. EUR 25 million) bonds on the Romanian market – the largest issue by an international financial institution during the past six years in Romania. In September 2016, the Issuer successfully placed additional RON 300,000,000 bonds on the Romanian market. Both series of RON-denominated bonds were admitted to trading on the Bucharest Stock 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.

During 2017, 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 central 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 Memoranda on Cooperation with foreign affairs and/or economic ministries of Hungary, the Slovak Republic, Mongolia and the Russian Federation, and is currently in the process of signing such cooperation documents with the relevant authorities in Romania and Bulgaria. 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 matters 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 also signed on 27 June 2017, during the Issuer’s Council 107<sup>th</sup> meeting held in Bucharest, Romania, laying out the foundation for the creation of “Project Exchange”- an integration platform under the auspices of the Issuer in order to develop investment activities both in the Member States and third countries for financing trade and export-import operations.

### **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 2017, the Issuer’s capital adequacy ratio, calculated in accordance with the Basel II methodology stood at 40.9% (for tier I capital) and 42.2% (for total capital *i.e.*, including tier II capital).

As of 30 June 2017, the Issuer attracted short-term funds from financial institutions in the form of deposits amounting to EUR 45.1 million representing 7.4% of the Issuer’s total liabilities as of the same date.

During the past two year, the Issuer has successfully completed a 30 million issue of EUR-denominated bonds on the Slovak market and six issues of RUB-denominated bonds in the aggregate amount of over RUB 20 billion on the Russian market. As of 30 June 2017, the outstanding debt for RUB-denominated bonds amounted to EUR 274.5 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). 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 90 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 Bank (France), Česká exportní banka, Industrial and Commercial Bank of China, Eurasian Development Bank, ING Bank, Rosbank, Banca Transilvania, Sberbank Europe, Sberbank CZ, Erste Group Bank etc., and more than 40 such agreements are currently pending negotiation between the Issuer and other current or potential financial partners, including KBC, K&H Bank, OTP Bank, VTB Deutschland, Bank of Georgia, Natixis and ICBC Standard Bank.

### **Solid investment grade ratings from rating agencies**

The international credit rating agency Fitch assessed the Issuer's reliability by assigning a debut credit rating (BBB-with stable outlook) in December 2013. In February 2015, Fitch re-affirmed the Issuer's stable outlook after having assigned a negative outlook to the Issuer's rating in March 2014 due to the downgrade of the Russian sovereign rating. During the rating process, the agency has also given a positive assessment of the Issuer's business plan and the consistency of its implementation. In February 2016, Fitch maintained the Issuer's BBB- rating with stable outlook citing the Issuer's strong capital, geographic diversification and improved risk management, while in December 2016 upgraded the Issuer to BBB with 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.

Moody's assigned the Issuer an even stronger investment grade rating (A3 with stable outlook) in August 2014. Moody's re-assessed the Issuer's rating to Baa1 in March 2015. Moody's cited as the main rationale behind this decision the worsening growth prospects of Russia, downgraded by the agency three times between August 2014 and March 2015 (in October 2014, January 2015 and February 2015), as well as of other countries in which the Issuer operates. The rating agency also decided to maintain the Issuer's stable outlook, citing the strength of several intrinsic factors of the Issuer. In September 2016, Moody's updated its credit opinion on the Issuer, having confirmed the assigned Baa1 rating and stable outlook of the Issuer. Moody's gave four main reasons for the rating, namely the very high usable equity in relation to development assets, the very low leverage, the sizeable liquid assets to cover debt service and the very large amount of callable capital of the Issuer. On 5 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 October 2015, Chinese rating agency Dagong assigned the Issuer an A rating with a stable outlook citing the Issuer's superior capital adequacy and liquidity.

In June 2016, S&P assigned the Issuer a BBB rating with stable outlook on the basis of the Issuer's strong capitalization. The same rating was re-affirmed in June 2017 mainly due to an improving funding profile and an improvement in the quality of liquid assets.

### **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 in order to determine the amount of equity needed to cover unforeseen losses;
- implementing a risk-adjusted pricing model;
- 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;
- switching to the IFRS 9 Standard; 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 will strengthen the way it deals with NPLs, including 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 2014, 31 December 2015, and, respectively, 31 December 2016, as well as for the six-month period ended 30 June 2016 and, respectively, 30 June 2017:

<i>(EUR million)</i>	<b>31 December 2014</b>	<b>31 December 2015</b>	<b>31 December 2016</b>	<b>30 June 2016</b>	<b>30 June 2017</b>
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Credit investment activity <sup>1</sup> .....	3.5	2.1	1.52	4.9	0.5
Treasury.....	12.8	15.2 <sup>3</sup>	16.66	6.27	9.13
Other operations.....	2.9	1.64	1.55	2.1	1.71
Profit for the period <sup>2</sup> .....	4.2	2.1	0.80	5.03	2.28

Source: The Financial Statements

<sup>1</sup> The figure shows the interest and commission income and other segment income net of interest and commission expenses, loan impairments and other segment expenses.

<sup>2</sup> The total profit includes other elements such as unallocated income and expenses.

<sup>3</sup> 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 1.4 million in 2015, from EUR 3.5 million as of 31 December 2014 to EUR 2.1 million as of 31 December 2015, decreased by EUR 0.58 million in 2016, year-on-year, to EUR 1.52 million as of 31 December 2016 and, as of 30 June 2017, decreased by EUR 4.4 million on a year-on-year basis, from EUR 4.9 million as of 30 June 2016 compared to EUR 0.5 million as of 30 June 2017, mainly due to accrued allowance for loans impairment in the first half of 2017.

Treasury operating income amounted to EUR 15.2 million as of 31 December 2015, increasing by EUR 2.4 million compared to EUR 12.8 million as of 31 December 2014, increasing by EUR 1.5 million year-on-year, to EUR -15.2 million as of 31 December 2016. In the first half of 2017 compared to the same period of 2016, treasury operating income continued to increase by EUR 2.8 million or 44%, from EUR 6.3 million as of 30 June 2016 to EUR 9.1 million as of 30 June 2017. The increase of income in the treasury segment was mostly due to trading operations from portfolio investment securities available-for-sale and dealing in foreign currencies and operations with derivatives.

Other operating income (such as income from lease of investment property), amounted to EUR 2.9 million as of 31 December 2014 and decreased to EUR 1.64 million as of 31 December 2015 and to EUR 1.55 million as of 31 December 2016. In the first six months of 2017, operating income from other operations amounted to EUR 1.71 million as of 30 June 2017 and decreased by EUR 0.4 million or 18.6% compared to EUR 2.1 million as of 30 June 2016.

In 2015, profit decreased by EUR 2.1 million or 50%, from EUR 4.2 million as of 31 December 2014 to EUR 2.1 million as of 31 December 2015, while in 2016 continued to decrease to EUR 0.80. In the first six months of 2017, profit decreased by EUR 2.75 million or 54.67% from EUR 5.03 million as of 30 June 2016 to EUR 2.28 million as of 30 June 2017. The decrease in the net profit in the first half of 2017 is mainly due to the fact that allowance for loans impairment was created in the first half of 2017 (in 2016 the allowance for loans impairment in the amount of EUR 2.54 million was created in the second 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 2014, 31 December 2015 and, respectively, 31 December 2016, as well as for the six-month period ended 30 June 2016, and respectively 30 June 2017:

<i>(EUR million)</i>	<b>31 December 2014</b>	<b>31 December 2015</b>	<b>31 December 2016</b>	<b>30 June 2016</b>	<b>30 June 2017</b>
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Credit investment activity .....	240.3	306.3	363.4	416.4	500.81
Treasury .....	262.4	400.2	421.58	403.4	406.04
Other operations .....	108.8	102.9	96.42	101.84	95.80
Total assets .....	611.5	809.4	881.44	921.6	1,002.7

Source: The Financial Statements.

Assets allocated for credit investment activity increased by EUR 66 million or by 27.46% in 2015, from EUR 240.3 million as of 31 December 2014 to EUR 306.3 million as of 31 December 2015, 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 and 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.

Assets allocated for treasury activity amounted to EUR 400.2 million as of 31 December 2015, increasing by EUR 137.8 million or 52.51% compared to EUR 262.4 as of 31 December 2014, to EUR 421.58 million as of 31 December 2016, increasing by EUR 21.38 compared to the same period of 2015 and to EUR 406.04 million as of 30 June 2017, increasing by EUR 2.64 million or 0.65% compared to EUR 403.4 million as of 30 June 2016.

In 2015, the value of other assets of the Group (such as investment property and other assets) decreased by EUR 5.9 million or 5.42%, from EUR 108.8 million as of 31 December 2014 to EUR 102.9 million as of 31 December 2015. In 2016, the value of other assets decreased by EUR 6.48 million or 6.29% year-on-year, to EUR 96.42 million. As of 30 June 2017 the total value of other assets decreased by EUR 6.04 or 5.93% year-on-year, from EUR 101.84 million as of 30 June 2016 to EUR 95.80 million as of 30 June 2017.

## **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 between both them and third countries, which includes funding export/import operations and investment.

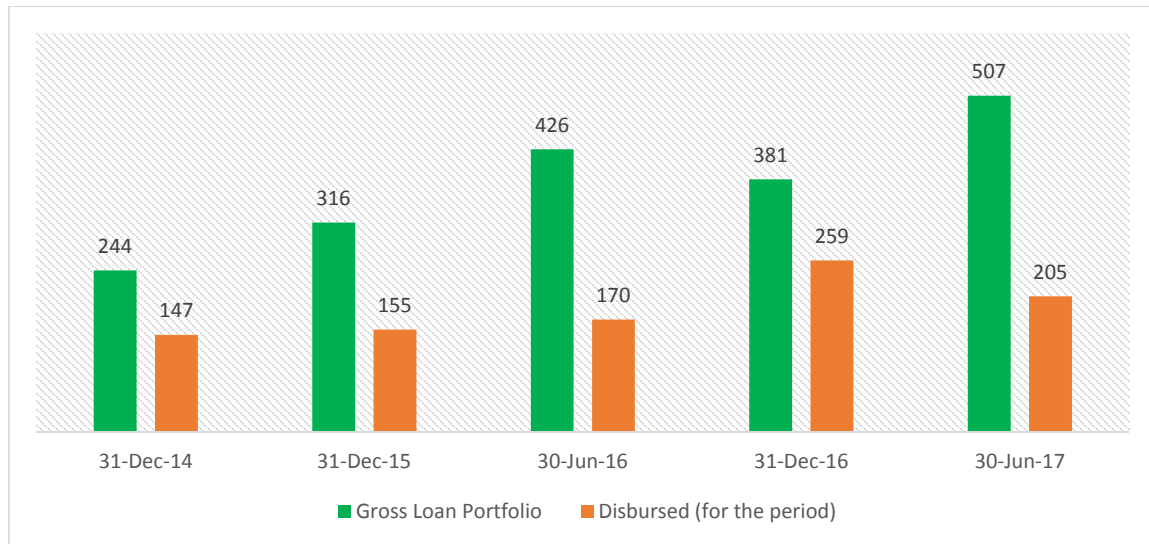
The main financial instruments developed and currently offered by the Issuer are the following:

- *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;
- *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.

As of 30 June 2017, amounts of loans granted by the Issuer to clients range between EUR 5 and EUR 60.0 million.

In line with its key objectives under the 2018-2022 Strategy, 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 (less allowance for impairment) in the years ended 31 December 2014, 2015, 2016 and the six-month periods ended 30 June 2016 and, respectively, 2017 in EUR million:



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

The Issuer's net loan portfolio is 59.1% denominated in EUR. As of 30 June 2017, approx. 33.1% of the Issuer's loan portfolio net of allowance consisted of loans extended in USD, 7.8% 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 2017, 0.54% of the outstanding amounts net of allowance under loans to banks are to be repaid less than one month, 5.74% are to be repaid within one to three months, 48.2% are to be repaid within three months to one year, 35.4% are to be repaid within one year to five years and 1.1% over five years.

As of 30 June 2017, 15.29% of the outstanding amounts net of allowance under loans granted to corporate clients are to be repaid within less than one month, 3.10% to be repaid within one to three months, 14% to be repaid within three months to one year, 39.78% to be repaid within one year to five years and 24.87% over five years.

As of 30 June 2017, non-performing loans ("NPLs") coverage ratio was of 34.7%.

### ***Approach to SME lending***

As at 30 June 2017, 16% (approx. EUR 81 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.

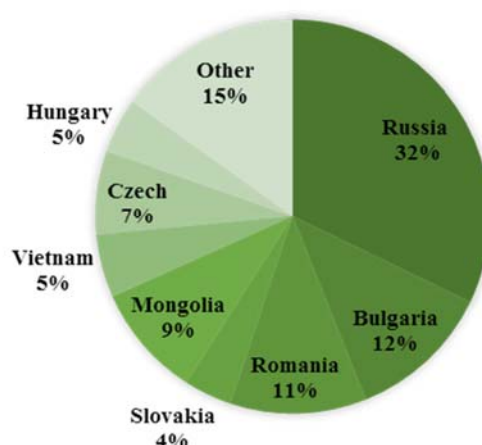
The following areas are considered as priorities for the Issuer's SME financing:

- *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.

### ***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 2017 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 30 June 2016, the total amount of such loans was of EUR 82.2 million, representing 66.7% 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 2017, 25.81% were provided to banks based in Mongolia, 56.59% to banks based in the Russian Federation, 16.02% to banks based in Vietnam.

Also, as at 30 June 2017, the Issuer had extended loans to corporate clients in the amount of EUR 337.2 million loans net of allowance for loan impairment, out of which 21% was provided to corporate clients based in the Russian Federation, 18% to corporate clients based in the Republic of Bulgaria, 15% to corporate clients based in Romania, 10% to corporate clients based in the Czech Republic, 7% to corporate clients based in Hungary, 6% to corporate clients based in Slovak Republic, 1% to corporate clients based in Mongolia and 22% to corporate clients based in other countries.

In terms of sector concentration, as at 30 June 2017, 22% out of the Issuer's gross loan portfolio to corporate clients was provided to corporate clients active in the leasing industry and the same percentage to corporate clients active in the metal working industry, 16% was provided to clients active in production and transmission of electricity, 8% to clients active in food and beverages, 7% to clients active in the communications industry, 6% to clients active in manufacturing of electrical equipment industry, 5% to clients active in consulting services, 4% to clients active in each of agriculture and transport industries and 6% to clients active in other industries.

### ***Interest income and margin***

Increase in the lending activity of the Issuer during the years ended 31 December 2015 and, respectively 31 December 2016 and, respectively the six-month period ended 30 June 2017 has led to an increase in the Issuer's interest income in the same periods. Interest income increased by EUR 10.3 million or 61.3% during the year 2015, from EUR 16.8 million as at 31 December 2014 to EUR 27.1 million as at 31 December 2015. In 2016, the Issuer's

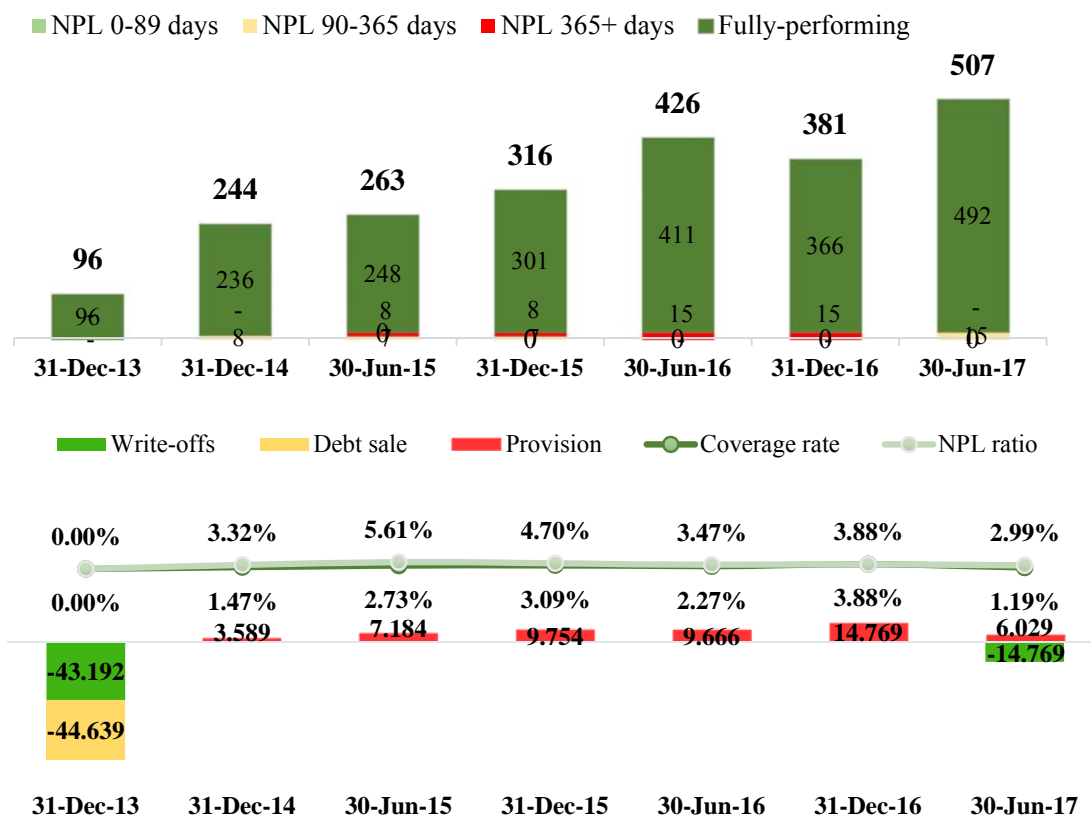
interest income increased by EUR 5.35 million or 19.6% year-on-year, to EUR 32.45 million as at 31 December 2016. In the first six months of 2017, the Issuer's interest income slightly decreased by EUR 0.1 million or 0.6% year-on-year, from EUR 16.2 million as at 30 June 2016 to EUR 16.1 million as at 30 June 2017.

The Issuer's total net interest income before allowance for loan impairment was of EUR 4.8 million as at 31 December 2016, compared to EUR 9.4 million as at 31 December 2015 and EUR 12 million as at 31 December 2014, representing a decrease of EUR 2.6 million or 21.7% in 2015 and 48.9% or EUR 4.6 million in 2016. In the first six months of 2017, the Issuer's total net interest income before allowance for loan impairment was of EUR 1.78 million, having decreased by EUR 1.27 million or 42% year-on-year, compared to EUR 3.05 million as at 30 June 2016.

Net interest margin (before allowance and including hedged percentages exchange rates of cross-currency interest-rate SWAP) decreased by 0.6 percentage points in 2015, from 3.7% as at 31 December 2014, to 3.1% as at 31 December 2015 and by 0.6 percentage points in 2016, to 2.5% as at 31 December 2016 mainly due to extended borrowing activities. The Issuer's net interest margin as of 30 June 2017 was 2.4%, compared to 2.8% as of 30 June 2016, having decreased by 0.4 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 2013, 2014, 2015, 2016 and 30 June 2015, 2016 and 2017, respectively:



Source: The Financial Statements. The coverage ratio is calculated as ratio between the total amount of loan loss provisions and the core outstanding 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 1.04% (EUR 5.25 million) of the total outstanding amount under the loans granted by the Issuer as of 30 June 2017, compared to 2.3% (EUR 9.67 million) as of 30 June 2016, decreasing by EUR 4.4 million or 45.7% year-on-year, changing due to 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 4.5% (EUR 17.3 million) of total outstanding amount under the loans granted by the Issuer as of 31 December 2016, compared to 3.1% (EUR 9.8 million) as of 31 December 2015 and to 1.5% (EUR 3.6 million) as of 31 December 2014.

The Issuer’s NPLs coverage ratio was 34.7% as of 30 June 2017.

### ***Deposits with the National Bank of the Republic of Cuba***

As part of the restructuring of the Cuban debt, the Issuer’s Council 100<sup>th</sup> 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 an impairment allowance covering 100% of the EUR 35 million aggregate amount of the debt was established. Given the above, the Issuer believes that the exposure to borrowers in the Republic of Cuba is neutralised and it is unlikely to have any further impact on the financial condition of the Issuer.

### ***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, 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.

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 and Belorussian 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) etc. in deals supporting export of different kinds of high-technology equipment from the Czech Republic, the Slovak Republic, Hungary to Belarus and Russia as well as support of export from People Republic of China, Turkey and Australia to Russia.

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 2017, the Issuer issued 15 TRLs for a total amount of approximately EUR 33 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.

#### ***Treasury - investment and trading activities***

In 2015, the value of the Group’s treasury assets increased by EUR 137.8 million or 52.5% from EUR 262.4 million as of 31 December 2014 to EUR 400.2 million as of 31 December 2015, whereas, in 2016, the value of such 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 2017, the value of the Group’s treasury assets increased by EUR 2.64 million or 0.65% year-on-year, to EUR 406 million. The Group’s income generated by its investment and trading activities, has increased by EUR 2.4 million or 18.75% in 2015, from EUR 12.8 million as of 31 December 2014 to EUR 15.2 million as of 31 December 2015, increased by EUR 1.5 million or 9.9 % year-on-year in 2016 to EUR 16.7 million as of 31 December 2016, and, respectively improved by EUR 2.9 million or 46% year-on-year in the first six months of 2017 compared to the same period of 2016, from EUR 6.3 million as of 30 June 2016 to EUR 9.1 million as of 30 June 2017.

The Group’s portfolio of available-for-sale investment securities increased by EUR 77.2 million or 198.5% in 2015, amounting to EUR 116.1 million as at 31 December 2015, as compared to EUR 38.9 million as at 31 December 2014. As of 31 December 2016, the value of the Group’s portfolio of available-for-sale investment securities increased by EUR 153.2 million or 131.9% compared to the same period of 2015, to EUR 269.3 million. As of 30 June 2017, the Issuer’s available-for-sale investment securities portfolio increased by EUR 69.8 million or 42.6% to EUR 233.7 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 2022-2027, while the annual coupon rate for these bonds varied from 0.4% to 8.8%; (ii) corporate bonds issued by large companies and banks of Member States, as well as corporate international companies and

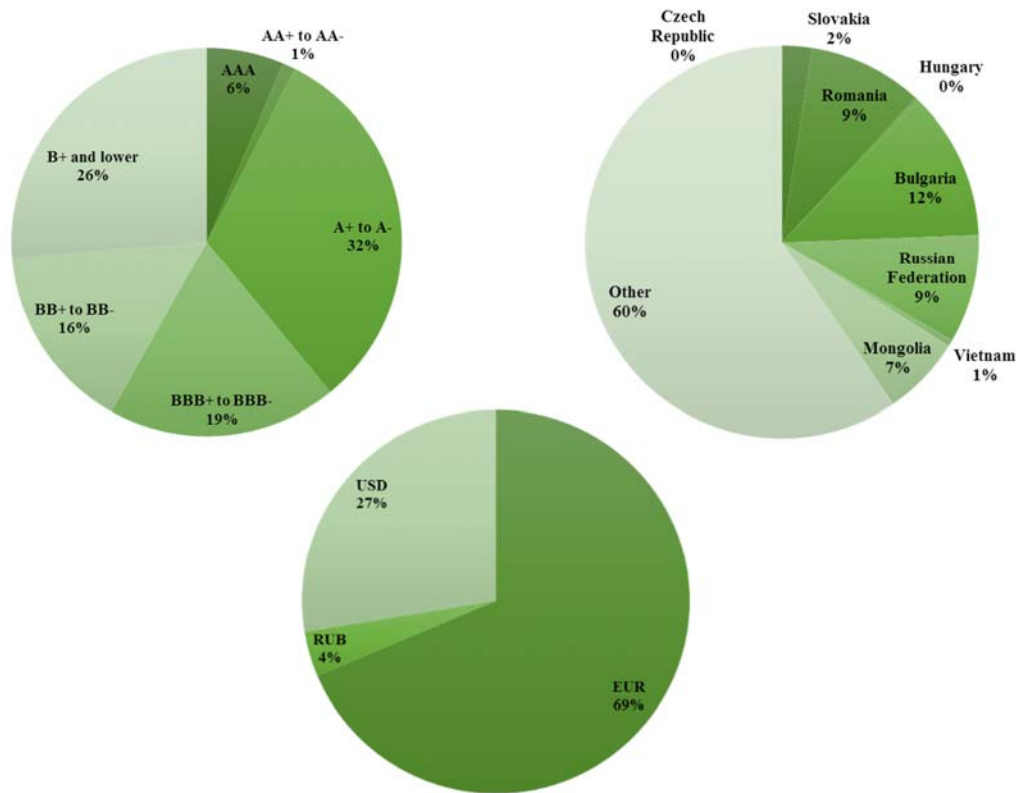
development banks that have similar goals and missions as the Group, maturing in 2018-2031, with annual coupon rate for these bonds varying from 2.1% to 10.3% and (iii) equity securities, represented by shares and depositary receipts issued by large international and Russian companies.

The treasury division of the Issuer conducts its operations within a comprehensive framework set forth by regulations adopted by the Council and the Board 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 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 2017 the diversification of assets under Treasury management by ratings, currencies and countries was as follows:



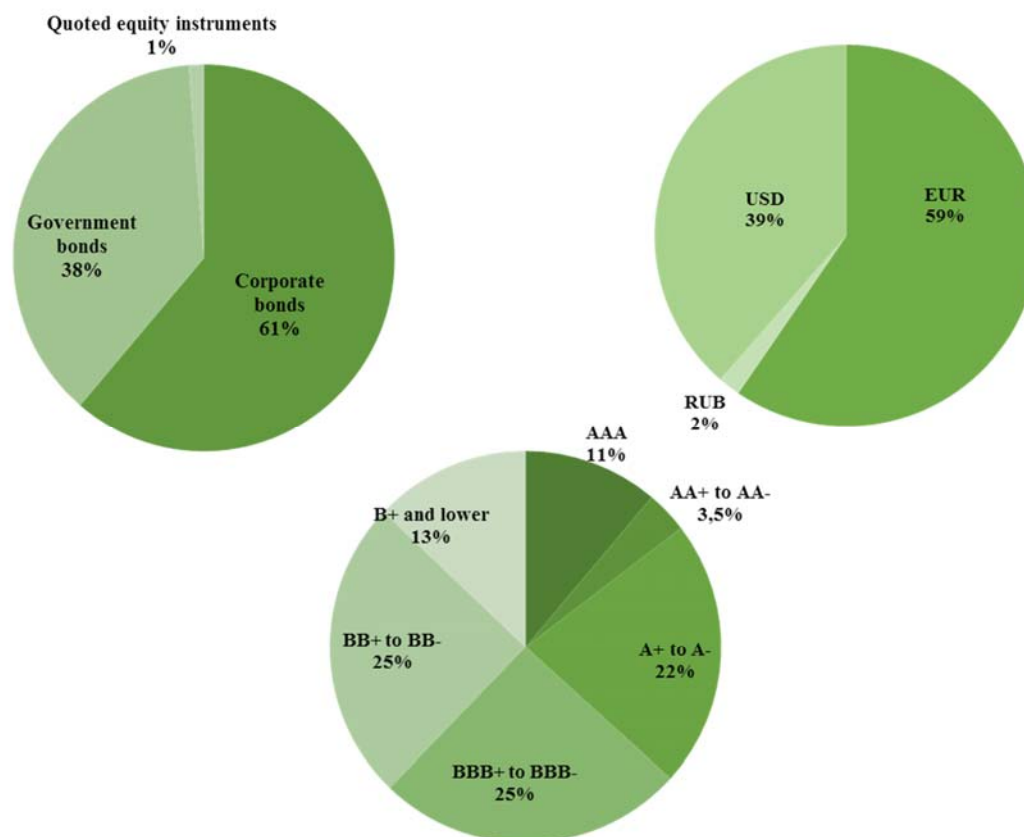
Source: The Financial Statements.

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 2017, the Issuer’s securities portfolio also included EUR-denominated bonds issued by Romania and the Russian Federation, maturing in 2023-2025 and having an annual coupon rate ranging from 2.75% to 3.1%, as well as corporate EUR and USD-denominated bonds issued by major companies and banks from the other Member

States, maturing between 2018 and 2024 and having an annual coupon rate ranging from 3.0% to 8.8%. As at 30 June 2017, bonds issued by Member States and other governments in the region represented 37.1% 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 2017, bonds rated BB+ to AAA represented 99.9% of the total value of the Issuer's corporate bonds portfolio.

As of 30 June 2017, 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 2017:

<i>Available-for-sale securities</i>	<i>Currency</i>	<i>Amount (EUR million)</i>	<i>Average Duration to Maturity</i>
	EUR	139.134	6.4Y
	USD	90.123	6.3Y
	RUB	4.418	14.0Y
	<b>Total equivalent in EUR million:</b>	<b>233.675</b>	

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 2016, the Group's revenues from lease of property decreased by EUR 1.76 million or 33.8% to EUR 3.44 million, as compared to EUR 5.2 million as of 31 December 2015. As of 30 June 2017, such revenues increased by EUR 0.25 million or 14% to EUR 2 million, as compared to the same period of 2016.

### **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 106<sup>th</sup> 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 membership (available to states and IFIs) or associated partnership (available to other organizations and funds). 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 Members 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 27<sup>th</sup> among the world's most attractive countries for doing business (*source*: The World Bank 2017 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% at the end of 2014 and accelerated to 4.5% in 2015. GDP growth in 2016 is forecasted to have fallen at 2.4%, with a slight recovery to 2.6% in 2017 and 2.7 % in 2018 (*source*: Country Report Czech Republic, 2017 European Semester, European Commission). Current account balance registered a 0.6% of GDP deficit in 2014 and 1.5% in 2015 and has returned to positive in 2016 at 1.1% and is expected to have slightly decreased in 2017 at 0.7% of GDP (*source*: IMF 2017 Article IV Consultation). The Czech Republic is rated AA- with a stable outlook by S&P, A1 with a stable outlook by Moody's and A+ with a stable outlook by Fitch.

General government gross debt as percentage of GDP has improved in 2014, reaching 42.2% and 40.3% in 2015, and is expected to have slightly decreased to 37.8% in 2016 and to further decrease to 36.7 in 2017 and 35.6 in 2018 (*source*: Country Report Czech Republic, 2017 European Semester, European Commission).

Trade finance products, launched by the Issuer in 2015 - 2017, have been especially popular in the Czech Republic – since from March 2015 until August 2017 the Issuer issued 25 trade finance deals having an aggregate amount of approximately EUR 21 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. The Issuer has successfully covered payments under 21 expired trade finance deals for the total amount of EUR 13 million. 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.

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.

The Czech Republic also expressed its support for a prospective issuance of bonds by the Issuer on the Czech capital market.

### **Hungary**

Hungary ranks 41<sup>st</sup> among the world's most attractive countries for doing business (*source*: The World Bank 2017 Doing Business Report), being one of the most open transitional economies in Eastern Europe. GDP registered a 4.0% growth in 2014, a 3.1% growth in 2015, year-on-year, is estimated to have decreased at 1.9 % in 2016 and is likely to increase to 3.5% in 2017, respectively (*source*: Country Report Hungary, 2017 European Semester, European Commission).

Current account balance stood positive at 3.4% of GDP in 2015 and is estimated to have increased at 4.9% of GDP in 2016 (*source*: IMF 2017 Article IV Consultation).

General government debt as percentage of GDP was 75.7% in 2014, 74.7% in 2015, is estimated to have decreased to 74.1% in 2016 and to further decrease to 73.1% in 2017 and 71.8 % in 2018, respectively (*source*: IMF 2017 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 stable outlook by Fitch.

From March 2015 until August 2017 the Issuer has issued three trade finance deals, including IRUs, in favour of Commerzbank AG and K&H Bank Zrt. supporting export operations of Hungary and has successfully covered payment under one expired trade finance deal.

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.

## **Mongolia**

The country's economic growth reached a rate of 7.9% at the end of 2014, 2.4% at the end of 2015 and is estimated to have reached a rate of 1.0 % GDP growth in 2016. The Mongolian natural resources extraction sector was hit hard by the drop in commodity prices, leading to forecasts indicating a decrease in GDP of - 0.2 % for 2017 and again an increase of 1.8% for 2018 (*source*: IMF 2017 Article IV Consultation), as mining accounts directly for 20 percent of the economy.

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 12.9% in 2014 and decreased to 5.8% in 2015, 0.5 % in 2016 and is expected to increase again to 3.9 % by end of 2017 and 5 % by end of 2018. (*source*: IMF). 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. The deficit is forecast to decline, however, to 10.6 percent in 2017 and further to around 1.5 percent 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 (*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 - 4.1 % and will slightly increase in 2017 to - 4.4 % (*source*: IMF 2017 Article IV Consultation).

Mongolia is rated B- with a stable outlook by S&P, Caa1 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 2017, loans extended by the Issuer to clients in Mongolia amounted to more than EUR 46 million.

In 2017, the Issuer has issued 16 trade finance deals for EUR 3.3 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 and Russia to 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, the economy is estimated to have grown by 3.3 % in 2016. In 2017 and 2018 smaller increases are forecasted, of 2.9 % and 2.8 %, respectively (*source*: Country Report Bulgaria, 2017 European Semester, European Commission).

Bulgaria's current account balance has increased from 0.4% of GDP in 2015 to an estimated 2.6 % in 2016. Despite the expected further increase in exports, the current account surplus is forecast to decrease to 1.4 % in 2017 and 0.8 % in 2018, mainly due to higher import growth fuelled by a strong domestic demand and by the expected rise in energy costs (*source*: Country Report Bulgaria, 2017 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 BB+ with a positive outlook by S&P, Baa2 with a stable outlook by Moody's and BBB- with a positive 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.

### **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.

From March 2015 until August 2017, 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. The Issuer has successfully covered payments under two expired trade finance deals for the total amount of EUR 5.3 million.

### **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 3.9%, its highest growth rate since 2008,



while in 2016 it is estimated to have reached 4.9 %, a new post-crisis peak (*source*: Country Report Romania, 2017 European Semester, European Commission).

Robust export growth was the initial driver of economic recovery. Recently, however, the recovery has been supported by a pick-up in private consumption on the back of rising real disposable income and low interest rates (*source*: IMF Country Report, March 2015). Export growth is expected to slow down in line with slow growth in main trading partners and a potential erosion of cost competitiveness. (*source*: Country Report Romania, 2017 European Semester, European Commission)

The general government deficit increased from 0.8 % of GDP in 2015 to 2.8 % of GDP in 2016 and is projected to increase further to 3.6 % in 2017 and 3.9 % in 2018. The structural deficit is projected to widen from below 1 % in 2015 to around 4 % in 2017, above its medium-term objective. The current account deficit has deteriorated from 1.0% of GDP in 2015 to 2.2% of GDP in 2016, with a surge in imports due to domestic demand and is expected to widen to 3.1% of GDP in 2018 (*source*: Country Report Romania, 2017 European Semester, European Commission, IMF).

The currency has developed relatively stable during recent years, also with support by the monetary authorities. GDP is estimated to grow by 4.2% in 2016, by 4.4 % in 2017 and by 3.7 % in 2018 (*source*: European Commission Winter 2017 Economic Forecast). 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.

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 1.4% in 2017 which will continue at the same levels 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 BB+ with a positive outlook by S&P, Ba1 with a stable outlook by Moody's and BBB- with a stable 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.

The Issuer's trade finance portfolio in the Russian Federation consist of two irrevocable reimbursement undertakings issued in 2015 by applications of Russian banks to support import of goods to Russian Federation from Turkey and People's Republic of China.

In 2015, the Issuer has also concluded various treasury 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 and Rosbank.

From March 2015 until August 2017 the Issuer has issued 16 trade finance deals for EUR 32 million including IRUs, banking guarantees and TRLs.

### **Slovak Republic**

The Slovak economy remains among the best performing European economies. The Slovak Republic ranks 33<sup>rd</sup> among the world's most attractive countries for doing business (source: The World Bank 2017 Doing Business Report). Based on solid domestic demand, fuelled by decent real wage and employment growth, GDP in the Slovak Republic is projected to have grown by 3.3% in 2016, by 3% in 2017 and to increase to 3.6% 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, 2017 European Semester, European Commission).

The general government deficit is expected to decline gradually, mainly due to higher tax revenues, with an estimation of 2.2 % of GDP in 2016 (source: Country Report Slovakia, 2017 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. From March 2015 until August 2017 the Issuer has issued five trade finance deals supporting export and import with Slovak Republic for EUR 2.4 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 2.5% in 2014) and only slightly falling behind China (estimated GDP growth of 6.9% in 2015), with its estimated GDP growth reaching 6.7% at the end of 2015, 6.2 % in 2016 and 6.3 % in 2017 and 2018 (*source*: IMF).

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

The Vietnamese Government has recently 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 4.1% of GDP in 2016. Projections show a decrease in the current account balance at 2.7 % and 2 % for 2017 and 2018, respectively (*source*: IMF).

Vietnam is rated BB- with a stable outlook by S&P, B1 with a positive outlook by Moody's and BB- with a positive outlook by Fitch.

As of 30 June 2017, approx. 16% 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 2016.

## **MEMBERS**

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 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.

As of 9 March 2016, Hungarian share in paid-in capital of the Issuer increased to EUR 40 million. As a result, the total share of the EU member states in the paid-in share capital of the Issuer increased to 48.72%, while the Russian Federation's share decreased to 47.92%.

The table below shows the participations of the Member States in the paid-in capital of the Issuer as of 30 June 2017:

<i>Member States</i>	<i>Share in the Issuer's paid-in capital</i>	
	<i>(EUR million)</i>	<i>%</i>
<b>EU member states</b>		
Czech Republic .....	30.37	9.70
Hungary .....	40.0	12.77
Republic of Bulgaria .....	42.2	13.48
Romania.....	18.45	5.90
Slovak Republic .....	21.48	6.86
<b>Total contribution by EU member states .....</b>	<b>152.5</b>	<b>48.72</b>
<b>Non-EU member states</b>		
Mongolia	1.48	0.47
Republic of Cuba	5.36	1.71
Russian Federation	150.03	47.92
Socialist Republic of Vietnam	3.67	1.17
<b>Total contribution by non-EU member states .....</b>	<b>160.54</b>	<b>51.28</b>
<b>Total contribution of Member States .....</b>	<b>313.05</b>	<b>100.0</b>

Source: The Group's management report.

In accordance with the Constitutive Documents, all Member States of the Issuer may vote at the meetings of the Issuer's Council – this being the supreme governing body of the Issuer - and each Member State has one vote in the Council regardless of the size of its contribution to the Issuer's capital. The recent amendments to the Constitutive Documents, adopted at the Issuer's Council 101<sup>st</sup> meeting of May 2014 held in Havana, Cuba and currently pending ratification by all Member States in order to come into force, include amendments to the “one country – one vote” rule, as well as to the Issuer's corporate governance structure (see “*Management and governance – Proposed governance changes*” below).

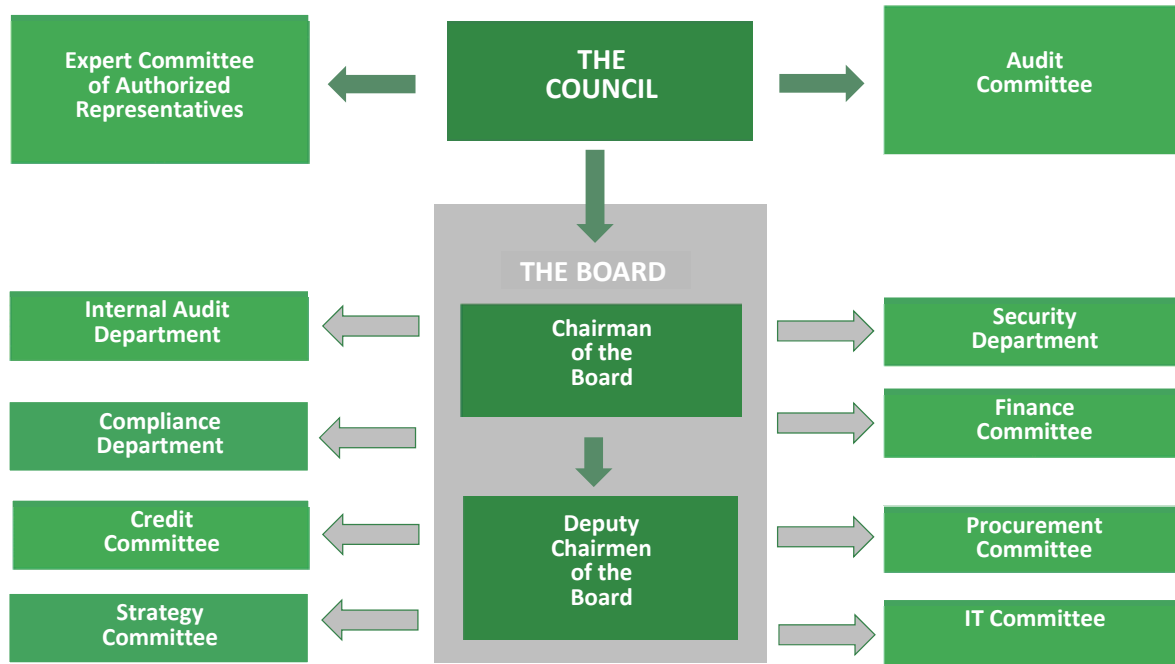
Member States may withdraw their membership from the Issuer upon notice to the Council at least six (6) months in advance. The withdrawal procedure is outlined in the Constitutive Documents.

The Issuer is also open to new members. Membership may be obtained by filing an official application with the Council. Acceptance of the new member is approved by decision of the Council, with a detailed Regulation on Joining the International Investment Bank having been adopted by the Council in 2015.

## MANAGEMENT AND GOVERNANCE

### General

The corporate governance structure of the Issuer is based on the principles of transparency, accountability, responsibility and openness. The overall governance structure of the Issuer is shown in the following chart:



The Issuer's governing bodies are the following:

- The Council, which is the highest authority, and supreme management body, of the Issuer, carrying out the strategic and general management of the Issuer's activities; and
- The Board, which is the executive body of the Issuer, appointed by the Council.

In line with best corporate governance practices of other international development banks, the Issuer has established various specialised collective bodies, 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.

### Council

The Council is the highest authority of the Issuer responsible for the general management of the Issuer's activities. The Council meets as frequently as it is necessary, but not less than twice a year. The main tasks of the Council include the establishment of the general strategy and trends of the Issuer's activities on financing and the attraction of funds, as well as the Issuer's policy with respect to interest rates, commissions and other charges, on the basis of the proposals made by the Board, approving a list of projects to be financed by the Issuer with indication of the credit amount within which the Board has the authority to extend loans in connection with each project, approving the main principles of the Issuer's credit policy and risk management, the Issuer's annual report, balance sheet and allocation of profits, the Issuer's corporate governance structure, staff schedule and budget of administrative expenses, and appointing the Chairman, the members of the Board and the members of the Audit Committee.

The Council also resolves on the opening of branches and representative offices by the Issuer in Member States, as well as in other countries, the increase of the capital of the Issuer, the admission of new members and the amendments to the Constitutive Documents.

Each Member State has one vote in the Council, irrespective of its share in the paid-in share capital of the Issuer, which may be casted by the members of the Council appointed by the respective Member State or the members of the official Delegation of the respective Member State. Below is a list of persons appointed as members of the official Delegations of the Member States, and, respectively, members of the Council by each Member State, as of the date of the Offering Circular:

- *Czech Republic*: Head of the Delegation is Lenka Dupáková, Deputy Minister of Finance of the Czech Republic. Council Member is Zuzana Matyášová, Director of the Department of International Relations with the Ministry of Finance of the Czech Republic.
- *Hungary*: Head of the Delegation is Mihály Varga, Minister for National Economy of Hungary. Council Member is Ágnes Hornung, State Secretary for Financial Policy Affairs.
- *Mongolia*: Head of the Delegation is Erdembileg Ochirkhuu, First Deputy Governor of Mongolbank. Deputy Head of the Delegation is Ganbaatar Jambal, Chief Economist and Advisor to the Governor of Mongolbank. Council Member is Ganbat Byambajav, Director General of Legal Department at the Mongolbank.
- *Republic of Bulgaria*: Head of the Delegation is Marinela Petrova, Deputy Minister of Finance of the Republic of Bulgaria. Council Member is Gergana Beremska, Director of the International Financial Institutions and Co-Operation Directorate of the Ministry of Finance of the Republic of Bulgaria.
- *Republic of Cuba*: Head of the Delegation is Arnaldo Alayón Bazo, Vice-President, Central Bank of Cuba. Deputy Head of the Delegation is Isaac Hernández Pérez, Department Director of the Banco Central de Cuba.
- *Romania*: Head of the Delegation is Attila Gyorgy, State Secretary of the Ministry of Public Finance of Romania. Council Member is Boni Cucu, Department General Director of the Ministry of Public Finance of Romania.
- *Russian Federation*: Head of the Delegation is Sergey Storchak, Deputy Minister of Finance of the Russian Federation. Deputy Head of the Delegation is Evgeniy Stanislavov, Department Director of the Ministry of Foreign Affairs of the Russian Federation.
- *Slovak Republic*: Head of the Delegation is Dana Meager, State Secretary of the Ministry of Finance of the Slovak Republic. Council Members are Martina Kobilicová, General Director of the Department of International Relations of the Ministry of Finance of the Slovak Republic and Katarína Kováčová, Director of the Division of International Institutions of the Ministry of Finance of the Slovak Republic.
- *Socialist Republic of Vietnam*: Head of the Delegation is Le Minh Hung, President of the State Bank of Vietnam. Council Members are Nguyen Thi Hong, Vice-President of the State Bank of Vietnam, Doan Hoay Anh, Department General Director at the State Bank of Vietnam and Dao Thuy Hang, Deputy Department General Director at the State Bank of Vietnam.

## **Board**

The Board is the executive body of the Issuer and it reports to the Council. The Board is headed by the Chairman. Four members of the Board are recommended by the Member States and two – following the resolution of the Council – are appointed on a merit-based approach. Member States which are not represented in the Board may appoint representatives in the Audit Committee.

The Board is vested with operating management duties, carried out in accordance with the strategy and policies approved by the Council. The Board supervises the Issuer's activities, oversees the day-to-day administration of the Issuer, exercises all powers delegated to it by the Council and performs all such other functions that are not specifically reserved to the Council in accordance with the Constitutive Documents.

As at the date of this Offering Circular, the Board comprises six members, namely five Deputies and the Chairman of the Board. Three Deputy Chairmen are appointed from the Member States' representatives, on a rotational basis,

and two Deputy Chairmen are appointed on a merit basis. As a rule, members of the Board are elected from citizens of the Member State, for a mandate of five years. According to the decision of the Issuer's Council 103<sup>th</sup> meeting held on the 4-5 June 2015, the countries which shall be represented in the Issuer's Board within the next five-year rotational cycle starting on 1 January 2016 are Bulgaria, Romania and the Slovak Republic. The representatives of these Member States within the Board were approved at the 104<sup>th</sup> meeting of the Issuer's Council held in Hanoi, Vietnam during 3-4 December 2015 and during further absentee voting by the Council. The members of the Board supervise the department assigned to them and report to the Chairman.

The table below contains a list of the members of the Issuer's Board:

**Nikolay Kosov, Russia**

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**Function:** Chairman of the Board, 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**

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**Function:** Deputy Chairman of the Board, as of January 2016; coordinates the finance unit.

**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.

**Denis Ivanov,**  
**Russia**

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**Function:** Deputy Chairman of the Board, since February 2013; coordinates the loans and investments unit.

**Education, practice, other relevant information:** Mr. Ivanov graduated with honours from the Moscow State Institute of International Relations in 1997 (specialising in International Relations and Diplomacy), received an MBA degree (specialising in Finance) from Cass Business School in London (2011) and holds a Certificate in Corporate Finance from London Business School.

1997-1999 – Attaché, Second European Department, Ministry of Foreign Affairs of Russia (Moscow).

1999-2004 – Attaché, Third, Second Secretary (PS to the Ambassador) of the Russian Embassy in the UK (London).

2004-2006 – Head of Representative Offices Division, Vnesheconombank (Moscow).

2006-2013 – Head of Vnesheconombank Representative Office in the UK (London).

Since February, 2013 – Deputy Chairman of the Board, International Investment Bank (Moscow).

**Vladimir Liventsev,**  
**Russia**

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**Function:** Deputy Chairman of the Board, since November 2012; coordinates the strategy unit.

**Education, practice, other relevant information:** In 1994, Mr. Liventsev graduated with honours from Moscow State Institute of International Relations, majoring in International Economic Relations).

1994-1995 — Manager at "Geotrading Ltd. Inc."

1995-2002 — Customer relations manager in Moscow and Central Russia at JSC Reuters. Among other responsibilities, Mr. Liventsev was in charge of the relationship with the largest Russian banks.



2002-2003 — Chief Commercial officer, Chief sales officer at JSC Optima Exchange Services.

2003-2004 — Chief business development officer at Andrew Travel House.

2004-2005 — Advisor to General Director, sales and marketing director at JSC Interfax.

2005-2012 — Advisor to Chairman of the Board, Assistant Chairman — executive secretary of the Board, Head of the Board Administration of the International Investment Bank.

Since November 2012 — Deputy Chairman of the Board, International Investment Bank.

**Rumyana Laleva  
Kyuchukova,  
Republic of Bulgaria**

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**Function:** Deputy Chairman of the Board, as of February 2016; coordinates the risks unit.

**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**

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**Function:** Deputy Chairman of the Board, as of March 2016; coordinates the treasury and debt finance unit.

**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.

### **Audit Committee**

The Audit Committee is appointed by the Council and consists of representatives of the Member States, vested with audit duties with respect to the Issuer's operations. The Audit Committee is independent from any other body within the Issuer and reports directly to the Council.

The activity of the Issuer's Audit Committee includes the verification of the methods of implementation of the Council's decisions, the annual reports, the cash and assets operations, the keeping of the Issuer's records, accounts and other books, as well as of the activity of the Issuer's branches and agencies. The members of the Audit Committee are appointed by the Council for a five-year mandate. One of the members of the Audit Committee is appointed as the Chairman thereof. The Chairman and the other members of the Audit Committee cannot hold any other positions within the Issuer.

### **Current voting system**

According to Article I of the Establishment Agreement, the activities of the Issuer are performed on the basis of equality of its members and by respecting the sovereignty of states.

Both Constitutive Documents also provide that each member of the Issuer, irrespective of its quota in the authorized capital, has one vote in the Council of the Issuer - this being the supreme governing body of the Issuer, which exercises the general management duties with respect to the Issuer's activity. The key matters, such as increasing of the authorized capital and contributions to it, admission of new members, amendment constitutive documents, appointment of the Board and its Chairman, approval of the annual report, balance-sheet and allocation of profits by the Issuer, opening or closing down branches and representative offices, are decided with the unanimity of votes of the Member States. Other matters, including the adoption of strategy and credit policies, are decided with the qualified majority of three fourths of the votes, *i.e.*, by seven votes out of the total nine votes possessed by the Member States.

Based on the express provisions of the Statutes, the members of the Board, its Chairman and the Issuer's other officials are subordinated to the Bank only (while in their official capacity), being also independent from any authority or official of the Member State of which they are citizens.

The Issuer's corporate governance system is based on the principles of transparency, responsibility, openness and careful consideration in decision making. All Member States are therefore equally capable of influencing the decisions adopted at the level of the Issuer.

### **Proposed governance changes**

In line with its objective to develop into a modern multilateral development bank, the Issuer has initiated a large-scale exercise, involving delegations from the Member States and professional advisers, in order to align its

Constitutive Documents with best governance practices adopted by development financial institutions and enhance transparency of the Issuer's governance structures, and thus make the Issuer more attractive for new members.

At the Issuer's Council 101<sup>st</sup> meeting of May 2014 held in Havana, Cuba, the Member States have adopted and opened for signing a Protocol amending the Agreement Establishing the International Investment Bank and its Statutes (the "**Amending Protocol**"). As of the date of this Offering Circular, the Amending Protocol was signed by all Member States, and is subject to completion of the required ratification procedures in the Member States. As of 30 June 2017, six out of nine Member States have ratified the Amending Protocol (save for the Czech Republic, the Slovak Republic and Mongolia, who are currently completing the final stages of the intrastate ratification procedures).

The governance changes proposed through the Amending Protocol include:

- *Introduction of the Board of Directors.* The Amending Protocol outlines the framework for the establishment of a three-tier corporate governance system of the Issuer, consisting of a Board of Governors, a Board of Directors and a Management Board, consistent with the governance practice in major development banks. Pursuant to the Amending Protocol, the current powers of the Council shall be, in principle, split between the Board of Governors and the Board of Directors. The Board of Governors shall be the supreme governing body of the Issuer. Votes in the Board of Governors shall be allotted *pro rata* to the Member States' contributions to the paid-in capital of the Issuer. The Board of Directors shall be the Issuer's collective governing body responsible for the general management of the Issuer's operations. Each Member State shall appoint one member of the Board of Directors and his/her deputy that member shall be allotted a number of votes *pro rata* to the share in the paid-in capital of the Issuer contributed by the Member State who appointed her/him. The Board of Governors and the Board of Directors shall be authorized to take decisions within their respective scope of competence provided that at least three quarters of the total number of members attend the relevant meeting. The third layer of the proposed management system consists of the Management Board, which shall be the Issuer's executive body. The members of the Management Board shall be appointed by the Board of Governors, for a five-year term. One member of the Management Board shall be appointed as Chairman. The Management Board shall be responsible for the day-to-day operations of the Issuer. The new governance system is intended to be more effective and facilitate the decision-making process.
- *New voting system.* The Amending Protocol proposes to re-allocate the voting powers of the representatives of the Member States in the Board of Governors and, respectively, the Board of Directors *pro rata* to the share of the Issuer's paid-in capital contributed by the respective Member State. 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 Amending Protocol, the resolutions of the Board of Governors and the Board of Directors will be adopted based on a double majority rule, with the favorable vote of: (i) at least three quarters of the total votes vested with the representatives of the Member States; and (ii) the majority of representatives of the Member States present at the respective meeting.

The proposed corporate governance changes to the Issuer's Constitutive Documents have also been reviewed by independent consultants from the International Bank for Reconstruction and Development (IBRD) – part of the World Bank Group (WBG), on the basis of the Memorandum of Understanding signed in May 2015 between the two parties. The review concluded in May 2016, with the IBRD having positively assessed the Issuer's transition towards a three-tier governance structure as being in line with the international standards of corporate governance and best practice standard among multilateral development banks.

## **REGULATORY CAPITAL**

The approval of capital adequacy ratios applicable to the Issuer is one of the prerogatives of the Council. 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 2014, 31 December 2015, 31 December 2016 and, respectively, 30 June 2016 and 30 June 2017:

<i>(EUR million)</i>	<b>31 December 2014</b>	<b>31 December 2015</b>	<b>31 December 2016</b>	<b>30 June 2016</b>	<b>30 June 2017</b>
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Tier 1 capital.....	351.3	366.0	378.0	378.0	378.8
Tier 2 capital.....	33.9	29.8	11.4	32.0	11.7
Total regulatory capital.....	385.2	395.8	389.15	410.0	390.5
Total risk-weighted assets.....	493.1	686.1	19.5	801.5	925.6
Total capital expressed as a percentage of risk-weighted assets, %.....	78.1%	57.7%	54.09%	51.2	42.2%
Total tier 1 capital expressed as a percentage of risk-weighted assets, %.	71.2%	53.3%	52.5%	47.2	40.9%

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.

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 Council, the 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 Council, the 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:

<i>Body</i>	<i>Main responsibilities</i>
<b><i>Council</i></b>	<ul style="list-style-type: none"> <li>• Regular review of the Risk Management Strategy</li> <li>• Setting of general risk limits</li> <li>• Approval of risk appetite for each year</li> </ul>
<b><i>Board</i></b>	<ul style="list-style-type: none"> <li>• Approval and review of risk management policies</li> <li>• Overall organization of the Issuer’s risk management system (including related responsibilities and tasks)</li> <li>• Approval of new credit operations</li> <li>• Setting of limits for risk categories (e.g., credit, market, liquidity)</li> </ul>
<b><i>Finance Committee</i></b>	<ul style="list-style-type: none"> <li>• Providing methodological guidance</li> <li>• Review of limits for specific risk categories (i.e., country, market, liquidity)</li> <li>• Management of assets and liabilities</li> <li>• Liquidity management</li> </ul>
<b><i>Credit Committee</i></b>	<ul style="list-style-type: none"> <li>• Management of loan portfolio</li> <li>• Review of credit risks limits</li> <li>• Approval of new credit operations</li> </ul>
<b><i>Risk Management Department</i></b>	<ul style="list-style-type: none"> <li>• Identification, assessment, measurement, reporting and monitoring of credit, market, operational and</li> <li>• Liquidity risks</li> <li>• Management of risks limits</li> <li>• Development of risks policies</li> </ul>

<b>Internal Audit Department and Audit Committee</b>	<ul style="list-style-type: none"> <li>• Assessment of counterparties</li> <li>• Review of the efficiency of the risk management framework</li> <li>• Review of the risk management process, tools and organization</li> </ul>
	<ul style="list-style-type: none"> <li>• Monitoring and controlling risk limits</li> <li>• Active management of operational risks</li> </ul>

### **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 Council, as well as of other limits approved by the 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 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 Risk Management Strategy, the Council approves 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 Council 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 bi-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 and take-profit 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 Council and, respectively, the Board in the establishment of key risk limits:

<b>Council</b>	<b>Strategic yearly limits</b>		<b>Risk appetite indicators for one year</b>	
	<ul style="list-style-type: none"> <li>• Capital adequacy ratio (at least 25%)</li> <li>• Limit of exposure to one counterparty or group of related counterparties (up to 25% of the Issuer's equity)</li> <li>• Liquidity coverage ratio (at least 100%)</li> <li>• Net stable funding ratio (at least 100%)</li> <li>• Financial leverage (up to 250%)</li> </ul>		<ul style="list-style-type: none"> <li>• Risk appetite levels (capital allocation to credit, market and operational risks)</li> <li>• Risk appetite indicators (e.g., liquidity, portfolio, quality, rating)</li> </ul>	
<b>Board</b>	<b>Semi-annual individual counterparty limits</b>		<b>Individual loan limits</b>	
	Permitted operations: <ul style="list-style-type: none"> <li>• NOSTRO</li> <li>• Interbank lending</li> <li>• Forex</li> <li>• Equity/Bonds</li> <li>• Other</li> <li>• Other</li> </ul>		<ul style="list-style-type: none"> <li>• Corporate clients</li> <li>• Financial institutions</li> </ul>	
			<b>Systemic limits</b>	
			<ul style="list-style-type: none"> <li>• Credit risk limits</li> <li>• Market risk limits</li> <li>• Operational risk limits</li> <li>• Country limits</li> <li>• Sector limits</li> <li>• Other limits</li> </ul>	

The following table shows key risk parameters of the Issuer and applicable limits, as of 31 December 2014 and 31 December 2015, 31 December 2016 and, respectively, as of 30 June 2016 and 30 June 2017:

Indicator	31 December 2014	31 December 2015	31 December 2016	30 June 2016	30 June 2017	Limit
Capital adequacy ratio (Basel II methodology) .....	78.1%	57.67%	54.1%	51.2%	42.4%	not less than 25%
Liquidity coverage ratio (LCR) (Basel II methodology) .....	192.8%	319.5%	476.0%	154.0%	261.0%	not less than 100%
Net Stable Funding Ratio (NSFR) (Basel II methodology) .....	89.9% <sup>1</sup>	118.0%	112.1%	116.4%	104.4%	not less than 100%
Financial leverage.....	57.03%	104.3%	126.1%	123.6%	156.2%	up to 250%

Source: The Group.

<sup>1</sup> 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 411.9 as of 31 December 2016 compared to EUR 321.7 million as of 31 December 2015, and to EUR 133.3 million as of 31 December 2014. As of 30 June 2017, the Issuer's borrowings reached EUR 533.3, compared to EUR 370.6 million as of 30 June 2016, the increase being principally due to the issuance of RUB-denominated bonds (in the amount of approx. EUR 156 million).

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 provides for potential drawings in the amounts of RUB 2 billion (EUR 31.3 million), RUB 3 billion (EUR 47.0 million), RUB 4 billion (EUR 62.7 million) and RUB 5 billion (EUR 78.4 million). The programme documentation provides semi-annual coupon payments and the possibility for the Issuer to benefit from put options with respect to the drawings.

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 11.70% p.a. The bond was partly repurchased under investor put option in October 2015. The amortized value of bond in circulation as of 30 June 2017 was EUR 7.5 million.

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 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 2017 was EUR 45.2 million.

In November 2015, the Issuer placed series 04 RUB denominated bonds in the amount of RUB 5 billion (EUR 78.4 million). The current rate was set at 11.90% p.a. The amortized value of bond as of 30 June 2017 was EUR 74.4 million.

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 2017 was EUR 147.4 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 are 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.

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 30.66 million as of 30 June 2017.

On 25 April 2014, the Issuer concluded a USD 25 million (EUR 21.8 million) bilateral loan facility with Rosbank (part of Groupe Société Générale). This bilateral loan was repaid in April 2016. A second bilateral loan facility for the amount of USD 15 million (EUR 13.1 million) was concluded on 19 March 2015 with International Asset Bank AD (Bulgaria). In December 2015, the Issuer signed an Addendum to the loan agreement which lowered the interest rate and extended the maturity. This loan was repaid in June 2017. On 20 May 2015, the Issuer concluded a EUR 7.5 million bilateral loan facility with EXIMBANKA SR (EXPORTNO-IMPORTNÁ BANKA SLOVENSKEJ REPUBLIKY). This bilateral loan was repaid in June 2016.

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.

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. 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 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 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.

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.

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.

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 2016, 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 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.

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 Management 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.

#### **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 0.73 million for the first half of 2017, of which most represented employee benefits to the key management personnel (in the amount of EUR 0.7 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 2014, 31 December 2015 and, respectively, 31 December 2016 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 2016 and, respectively, 30 June 2017 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 2014, 31 December 2015 and, respectively, 31 December 2016 and the six-month periods ended 30 June 2016 and, respectively, 30 June 2017.

## 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 “**Conditions**”) herein relate to a public offering of unsecured floating interest rate Bonds denominated in RON and fixed interest rate Bonds denominated in EUR having the minimum aggregate principal amount of EUR 100,000,000 (or the equivalent thereof in RON and/or a combination of EUR and RON), 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 Statutes of the International Investment Bank attached to the Establishment Agreement, 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 and EUR-denominated fixed interest rate bonds, with a 3 year maturity. The Bonds shall have the minimum principal amount of EUR 100,000,000 (or the equivalent thereof in RON and/or a combination of EUR and RON). The final aggregate minimum and/or, if the case, maximum principal value, as well as the floating interest rate, of the RON Bonds offered hereunder and the final aggregate minimum and/or, if the case, maximum principal value, as well as the fixed interest rate of the EUR Bonds offered hereunder shall be established by the Issuer in agreement with the Co-Lead Managers and notified to investors through a pricing notification published on the Issuer’s web site <https://www.iib.int/en>, on each Co-Lead Manager’s website <http://www.btcapitalpartners.ro> and <https://www.bcr.ro>, respectively, and on the website of the Bucharest Stock Exchange [www.bvb.ro](http://www.bvb.ro), on 20 September 2017 (the “**Pricing Notification**”). The publication of the Pricing Notification shall not be construed, nor shall require, an amendment of this Offering Circular or the Conditions.

Investors may subscribe for the Bonds on 21 September 2017 (the “**Offering Date**”), from 10:00 to 18:00 Romanian time. (see “*Subscription and sale*” below).

The Bonds are governed by the following terms and conditions (the “**Conditions**”):

### 1. DEFINITIONS AND INTERPRETATION

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

<b>Base Interest Rate</b>	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;
<b>Bondholders</b>	has the meaning ascribed to it under Condition 4 herein;
<b>Bonds</b>	means collectively the RON Bonds and the EUR Bonds;
<b>Business Day</b>	means a day in which banks are opened for general business in Bucharest and Moscow, other than Saturday, Sunday and public holidays;

<b>BTCP</b>	BT Capital Partners S.A.;
<b>BCR</b>	Banca Comerciala Romana S.A.;
<b>Calculation Agent</b>	BT Capital Partners S.A.;
<b>Central Depository</b>	Central Depository S.A.;
<b>Conditions</b>	means the terms and conditions in this section “ <i>Terms and conditions of the Bonds</i> ” by which the Bonds are governed;
<b>Covenant</b>	has the meaning ascribed to it in Condition 14.1 herein;
<b>Covenant Fulfilment Notice</b>	has the meaning ascribed to it in Condition 14.2 herein;
<b>Covenant Triggering Event</b>	has the meaning ascribed to it in Condition 14.1 herein;
<b>Early Redemption</b>	has the meaning ascribed to it in Condition 14.1 herein;
<b>Early Redemption Amount</b>	has the meaning ascribed to it in Condition 14.1 herein;
<b>Early Redemption Date</b>	has the meaning ascribed to it in Condition 14.2 (c) herein;
<b>Eligible Recipient</b>	has the meaning ascribed to it under Condition 12.3 herein;
<b>EMU</b>	means the Economic and Monetary Union;
<b>EUR Bonds</b>	means EUR-denominated fixed interest rate bonds, under the Offering with a 3-year maturity, and in the minimum and/or maximum principal amount as announced through the Pricing Notification;
<b>Event of Default</b>	has the meaning ascribed to it in Condition 13.1 herein;
<b>Financial Indebtedness</b>	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;

<b>Guarantee</b>	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;
<b>Interest Payment Date</b>	means, in relation to the EUR Bonds, 25 September of each year from and excluding the Issue Date and until and including the relevant Maturity Date and in relation to the RON Bonds, each of 25 December, 25 March, 25 June and 25 September 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 25 December 2017 and for EUR Bonds, is 25 September 2018;
<b>Interest Period</b>	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>i.e.</i> , 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);
<b>Interest Rate</b>	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 agreement with the Co-Lead Managers for the Bonds and announced to investors through the Pricing Notification (see also " <i>Subscription and sale – Establishment of the principal value, Interest Rate and maturity of RON Bonds and EUR Bonds</i> ");
<b>Issue Date</b>	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>i.e.</i> , 25 September 2017;
<b>Material Subsidiary</b>	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;

<b>Maturity Date</b>	means in relation to each of the RON Bonds and the EUR Bonds, the date falling 3 years after the Issue Date, to be established by the Issuer in agreement with the Co-Lead Managers, and announced to investors through the Pricing Notification which shall be published on the Issuer's web site <a href="https://www.iib.int/en">https://www.iib.int/en</a> , on each Co-Lead Manager's website <a href="http://www.btcapitalpartners.ro">http://www.btcapitalpartners.ro</a> and <a href="https://www.bcr.ro">https://www.bcr.ro</a> , respectively, and on the website of the Bucharest Stock Exchange <a href="http://www.bvb.ro">www.bvb.ro</a> , on 20 September 2017;
<b>Nominal Value</b>	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;
<b>Offering</b>	has the meaning ascribed to it in the preamble of this section " <i>Terms and conditions of the Bonds</i> ";
<b>Offering Date</b>	means 21 September 2017;
<b>Participant</b>	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;
<b>Paying Agent</b>	Banca Transilvania S.A.;
<b>Payment Date</b>	has the meaning ascribed to it in Condition 12.2 herein;



<b>Permitted Security Interest</b>	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);
<b>Pricing Notification</b>	means the notification which shall be published on the Issuer's web site <a href="https://www.iib.int/en">https://www.iib.int/en</a> , on each Co-Lead Manager's website <a href="http://www.btcapitalpartners.ro">http://www.btcapitalpartners.ro</a> and <a href="https://www.bcr.ro">https://www.bcr.ro</a> , respectively, and on the website of the Bucharest Stock Exchange <a href="http://www.bvb.ro">www.bvb.ro</a> , on 20 September 2017, whereby the Issuer and the Co-Lead Managers shall <i>inter alia</i> announce the Interest Rate for the RON Bonds and for the EUR Bonds to investors (see " <i>Subscription and sale – Establishment of the principal value, Interest Rate and maturity of RON Bonds and EUR Bonds</i> ");
<b>Procedures</b>	has the meaning ascribed to it in Condition 12.4 (a) herein;
<b>Rating Agency</b>	means any of the following: Fitch, Moody's or S&P and their respective successors or affiliates;
<b>Redemption Date</b>	means the Maturity Date or the Early Redemption Date, as applicable;
<b>Reference Date</b>	means the date falling 15 Business Days before the relevant Payment Date;
<b>Registry of Bondholders</b>	means the evidence of bondholders maintained electronically by the Central Depository on the basis of the contractual arrangements entered into with the Issuer;
<b>Relevant Account</b>	means the Registry of Bondholders or the internal account of a Participant registered in the Registry of Bondholders, as the case may be;

<b>Restricted Party</b>	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;
<b>RON Bonds</b>	means RON-denominated floating interest rate bonds, under the Offering with a 3-year maturity, and in the minimum and/or maximum principal amount as announced through the Pricing Notification;
<b>Sanctions</b>	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;
<b>Sanctions Authority</b>	means each entity under (i) to (v) of the definition of the Sanction List;
<b>Sanctions List</b>	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;
<b>Security Interest</b>	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;
<b>Specified Account</b>	has the meaning ascribed to it in Condition 14.2 (d) herein;
<b>Transaction Date</b>	means the date on which trades in relation to the Bonds are executed through the Bucharest Stock Exchange electronic system, <i>i.e.</i> , 21 September 2017.

## 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 All Bonds are issued at Nominal Value.
- 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.*, 25 September 2017.
- 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 Co-Lead Manager's website <http://www.btcapitalpartners.ro> and <https://www.bcr.ro>, respectively, and on the website of the Bucharest Stock Exchange [www.bvb.ro](http://www.bvb.ro) on 20 September 2017 .
- 2.7 The minimum aggregate principal amount of the Bonds under these Conditions is EUR 100,000,000 (or the equivalent thereof in RON and/or a combination of EUR and RON). 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 agreement with the Co-Lead Managers and notified to investors through the Pricing Notification published on the Issuer's web site <https://www.iib.int/en>, on each Co-Lead Manager's website <http://www.btcapitalpartners.ro> and <https://www.bcr.ro>, respectively, and on the website of the Bucharest Stock Exchange [www.bvb.ro](http://www.bvb.ro), on 20 September 2017.
- 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.

### 3. FURTHER ISSUES

The Issuer may at any time issue 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 annual arrears, always on 25 September of each year, for EUR Bonds and in quarterly arrears, always on each 25 December, 25 March, 25 June and 25 September of each year, for RON Bonds.

For purposes of clarity, the first Interest Payment Date on the EUR Bonds is 25 September 2018 and the first Interest Payment Date on the RON Bonds is 25 December 2017 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 agreement with the Co-Lead Managers and notified to investors through the Pricing Notification published on the Issuer's web site <https://www.iib.int/en>, on each Co-Lead Manager's website <http://www.btcapitalpartners.ro> and <https://www.bcr.ro>, respectively, and on the website of the Bucharest Stock Exchange [www.bvb.ro](http://www.bvb.ro), on 20 September 2017. EUR Bonds will have fixed Interest Rate, which shall be specified in the Pricing Notification.

For RON Bonds, the Interest Rate represents the higher of nil and the sum of: (i) a variable Base Interest Rate indicated in the Pricing Notification and (ii) a fixed interest margin established by the Issuer in agreement with the Co-Lead Managers and announced through the Pricing Notification. For RON Bonds, the Interest Rate is automatically updated every three months, in accordance with the Base Interest Rate applicable on each relevant update day (being the second Business Day preceding the first day of each Interest Period for which the Interest Rate is calculated), based on the ROBOR 3M, which is available on the NBR's website on the relevant update day. If, for any reason whatsoever, the ROBOR 3M Base Interest Rate cannot be determined on the relevant update days, 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 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).

### **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*”).

### **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 any Guarantee as a result of any other event specified in this paragraph (c) which has occurred and is continuing, exceeds EUR 10,000,000 (or its equivalent in any other currency or currencies);

- (d) *Imposition of Sanctions*: the Issuer becomes a Restricted Party;
- (e) *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);
- (f) *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; or
- (g) *Ceased trading*: the RON Bonds or the EUR Bonds cease to be admitted to trading on a regulated market in the European Union;

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. COVENANT

### 14.1 If any of the following events occurs and is continuing (each of them a “**Covenant Triggering Event**”):

- (a) *Change in the membership of the Issuer*: Romania ceases to be a member state of the Issuer; or
- (b) *Rating downgrade*: a rating downgrade occurs with respect to the Issuer or the RON Bonds and/or, as the case may be, EUR Bonds. For the purposes hereof, the rating downgrade shall be deemed to have occurred if (i) the ratings previously assigned to the Bonds or the Issuer by at least two of the Rating Agencies are (A) withdrawn or (B) changed from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or (ii) at least two of the Rating Agencies assign to the Bonds or the Issuer a rating which is a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse),

then the Issuer hereby undertakes (the “**Covenant**”), upon request by any Bondholder registered as such in the Relevant Account at the end of business hours on the date of publication of the Covenant Fulfilment Notice (as defined below), to repurchase each Bond (but not some only) held by that Bondholder at the Nominal Value together with an amount equal to accrued interest (if any) up to but excluding the Early Redemption Date (the sum of such amounts being the “**Early Redemption Amount**”) in accordance with the procedure set out in this Condition 14 (“**Early Redemption**”). For the avoidance of doubt, the Covenant Triggering Event under paragraph (b) above occurring only in relation to a particular series of Bonds (being RON Bonds or EUR Bonds) shall not trigger cross-obligations of the Issuer in relation to the other series of Bonds (being EUR Bonds and, respectively, RON Bonds) to which it does not relate.

### 14.2 The Issuer must within seven Business Days after the occurrence of any Covenant Triggering Event notify the Bondholders by way of publication of a notice on its website (“**Covenant Fulfilment Notice**”). Any such notice must specify the following:

- (a) date of occurrence of the Covenant Triggering Event, nature of the Covenant Triggering Event and circumstances leading to its occurrence and the date of publication of the Covenant Fulfilment Notice;
- (b) date by which each Bondholder must deliver to the Calculation Agent a duly signed request whereby they require that the Issuer fulfil the Covenant;
- (c) date on which the Early Redemption shall take place, which may not be later than 13 Business Days after the lapse of the 20 Business Days period specified in Condition 14.3 below (the “**Early Redemption Date**”);
- (d) specification of the securities account of the Issuer with BTCP where the repurchased Bonds will be transferred on the Early Redemption Date (the “**Specified Account**”); and
- (e) explicit warning to each Bondholder that instructions must be given to relevant accountholder or custodian to procure for transfer of the Bonds to the Specified Account on a delivery-versus-payment basis on the Early Redemption Date, otherwise no Early Redemption money will be received.

**14.3** Within 20 Business Days after the Covenant Fulfilment Notice is published, each Bondholder shall have the right to require that the Issuer fulfil the Covenant by delivery of a duly signed request in this respect to the Calculation Agent. The request must specify the number of Bonds to be repurchased by the Issuer (*i.e.*, the total number of Bonds held by that respective Bondholder) and confirmation that instructions have been given to relevant accountholder or custodian to procure for transfer of the Bonds on a delivery-versus-payment basis to the Specified Account on the Early Redemption Date.

**14.4** On the Early Redemption Date, the Issuer shall pay the Redemption Amount to each Bondholder who duly exercised their right to request the Issuer to fulfil the Covenant against delivery of the Bonds held by that Bondholder to the Specified Account. Condition 12 shall apply to making payments on the Early Redemption Date accordingly. The Bonds purchased by the Issuer under this Conditions 14 shall not cease to exist and may be kept, resold or cancelled by the Issuer, at its sole discretion. Condition 11.3 shall apply accordingly.

## **15. STATUTE OF LIMITATIONS**

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

## **16. CALCULATION AGENT AND PAYING AGENT**

**16.1** 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.

**16.2** 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.

**16.3** 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.

**16.4** 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.

**16.5** 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.

## **17. AMENDMENTS**

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

**17.2** 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](http://www.bvb.ro).

## **18. NOTICES**

**18.1** 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](http://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.

**18.2** 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.

**18.3** Any notice to BT Capital Partners S.A., in capacity as Co-Lead Manager and/or Calculation Agent must be delivered in writing to the following address of the Co-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.

**18.4** Any notice to Banca Comerciala Romana S.A., in capacity as Co-Lead Manager must be delivered in writing to the following address of the Co-Lead Manager: 5 Regina Elisabeta Blvd., 3rd district, Bucharest, Romania, to the attention of Corporate Finance Division.

**18.5** 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.

**18.6** Notices to the Issuer, the Co-Lead 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.

## **19. GOVERNING LAW, LANGUAGE AND DISPUTES**

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

**19.2** 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.

**19.3** 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.

**20. 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.

**21. 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.*

### 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**"):

<b>Foreign legal entity</b>	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;
<b>Non-resident</b>	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;
<b>Non-resident individual</b>	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;
<b>Resident</b>	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;
<b>Resident individual</b>	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.

### **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 16 percent income tax in Romania.

The Bondholders have to declare the interest income derived from the Bonds by submitting with the Romanian tax authorities a special form by the 25th May 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 established by the tax authorities based on the return submitted by the Bondholders and should be paid to the Romanian state budget within 60 days from the receipt of the tax assessment decision issued by the tax authorities.

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 not to exceed the tax due in Romania for the respective interest income (*i.e.*, 16 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 should 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 16 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.

The Bondholders have to declare the capital gains derived from the Bonds by submitting with the Romanian tax authorities a special form by the 25th May 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 established by the tax authorities based on the return submitted by the Bondholders and should be paid to the Romanian state budget within 60 days from the receipt of the tax assessment decision issued by the tax authorities.

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 not to exceed the tax due in Romania for the respective capital gains (*i.e.*, 16 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 should be exempt from income tax in Romania.

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.

Investment income (including interest income and capital gains) derived by Romanian resident individuals is subject to 5.5% social health insurance contribution. The monthly taxable base for the social health insurance contribution is the gross income in case of interest income and net gain in case of capital gains derived by the individual. However, starting February 2017, the social health insurance contribution might not be due in specific cases (*e.g.*, in case the individual derives during the respective year other types of income subject to social health insurance contribution, for instance salary income or income from independent activities). 5.5% health insurance contribution may be due for January 2017 (for 1/12 of the investment income obtained during 2017), capped at RON 861 (roughly EUR 185).

The social health insurance contribution due by the individuals is determined by the tax authorities based on the form submitted by the individuals regarding the income derived from abroad and should be paid to the Romanian state budget within 60 days from the receipt of the tax assessment decision issued by the tax authorities.

### ***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 corporate 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 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 (*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 exempt from profits tax 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 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 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.



## 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 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.* 21 September 2017, 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 Co-Lead 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 Co-Lead 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.

15 September (P)	Publication of the Offering Circular on the Issuer’s web site <a href="https://www.iib.int/en">https://www.iib.int/en</a> and on each Co-Lead Manager’s website <a href="http://www.btcapitalpartners.ro">http://www.btcapitalpartners.ro</a> and <a href="https://www.bcr.ro">https://www.bcr.ro</a> , respectively
19 September 2017 (P) – 20 September 2017, by 3:00 P.M. Romanian time (P+2 BD – P+3 BD)	Bookbuilding process for Eligible Investors
20 September 2017, between 3:00 P.M. and 5:00 P.M. Romanian time (P+3 BD)	Determination of the Interest Rate

20 September 2017, between 3:00 P.M. and 5:00 P.M. Romanian time <b>(P+3 BD)</b>	Allocation of the Bonds
20 September 2017, between 5:00 P.M. and 7:00 P.M. Romanian time <b>(P+3 BD)</b>	Publication of the Pricing Notification on the Issuer's web site <a href="https://www.iib.int/en/">https://www.iib.int/en/</a> , on each Co-Lead Manager's website <a href="http://www.btcapitalpartners.ro">http://www.btcapitalpartners.ro</a> and <a href="https://www.bcr.ro">https://www.bcr.ro</a> , respectively, and on the website of the Bucharest Stock Exchange <a href="http://www.bvb.ro">www.bvb.ro</a>
21 September 2017 <b>(P+4 BD)</b>	Offering Date
21 September 2017 <b>(P+4 BD)</b>	Transaction Date <i>i.e.</i> , the date on which trades in relation to the Bonds are executed through the Bucharest Stock Exchange system
25 September 2017 <b>(P+6 BD)</b>	Issue Date <i>i.e.</i> , the date on which the Bonds are issued and delivered to the Bondholders pursuant to the Conditions (see " <i>Terms and conditions of the Bonds</i> ")
28 September 2017 <b>(P+9 BD)</b>	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 Co-Lead Managers among Eligible Investors, on 19 and 20 September 2017. During the bookbuilding process, the Co-Lead 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 Co-Lead 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 agreement with the Co-Lead 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 Co-Lead Manager's website <http://www.btcapitalpartners.ro> and <https://www.bcr.ro>, respectively, and on the website of the Bucharest Stock Exchange [www.bvb.ro](http://www.bvb.ro) on 20 September 2017.

### **Subscription documents**

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

"Eligible Participants" means any Participants (other than the Co-Lead 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 Co-Lead Managers and (ii) have transmitted such undertaking to BTCP. In case an Institutional Investor has concluded an investment services agreement any Co-Lead Manager or an Eligible Participant, such investor may validly subscribe for Bonds on the basis of orders given pursuant to such agreement and by any means of communication provided by such an agreement. In all other cases in which an Eligible Investor has not concluded an investment services agreement with a Co-Lead Manager or an Eligible Participant, such investor may validly subscribe for Bonds through any Co-Lead 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 Co-Lead 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 Co-Lead 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 Co-Lead 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 Co-Lead 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 Co-Lead 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 Co-Lead Manager only.

Participants may not accept subscriptions prior to the signing of a valid and binding written undertaking to abide by the terms and conditions herein with the Co-Lead Managers. Any placement of subscriptions orders with participants who are not Eligible Participants shall not be taken into consideration and the Issuer and the Co-Lead 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 Co-Lead 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 Co-Lead 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 *via* bank transfer in one of the following accounts: RO96BTRL01301202925690XX in RON and RO45BTRL01304202925690XX in EUR opened with Banca Transilvania S.A. Cluj or RO62RNCB0002B00053413366 in RON and RO78RNCB0002B00053413369 in EUR opened with Banca Comerciala Romana 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 Co-Lead 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 Co-Lead Manager or the relevant Eligible Participant with whom the subscription order is placed;

or

- 4) written statement from the Co-Lead 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, 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 indicated by that Eligible Investor in the subscription form or purchase order given to a Co-Lead Manager or an Eligible Participant (in case the Eligible Investor has concluded an investment agreement with a Co-Lead 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 Co-Lead 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 Co-Lead 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 indicated by that Eligible Investor in the subscription form or purchase order given to the Co-Lead Manager or an Eligible Participant (in case the Institutional Investor has concluded an investment agreement with a Co-Lead 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.

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 agreement with the Co-Lead Managers following the completion of the bookbuilding process among Eligible Investors, on 19 and 20 September 2017.

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 agreement with the Co-Lead 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 Co-Lead Manager's website <http://www.btcapitalpartners.ro> and <https://www.bcr.ro>, respectively, and on the website of the Bucharest Stock Exchange [www.bvb.ro](http://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 28 September 2017.

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 Co-Lead Manager's website <http://www.btcapitalpartners.ro> and <https://www.bcr.ro>, respectively, and on the website of the Bucharest Stock Exchange [www.bvb.ro](http://www.bvb.ro) on 20 September 2017.

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., 3<sup>rd</sup>, 8<sup>th</sup>, and 9<sup>th</sup> floors, Bucharest, 020922, 1<sup>st</sup> 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 Co-Lead 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 Co-Lead Manager's website <http://www.btcapitalpartners.ro> and <https://www.bcr.ro>, respectively, and on the website of the Bucharest Stock Exchange [www.bvb.ro](http://www.bvb.ro) on 20 September 2017.

#### **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 ICSDs 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 Co-Lead 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 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 2014*

*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 2014, 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 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 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

16 March 2015

Moscow, Russia

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****As at 31 December 2014***(Thousands of Euros)*

	<i>Note</i>	<i>31 December 2014</i>	<i>31 December 2013</i>
<b>Assets</b>			
Cash and cash equivalents	5	65,918	20,045
Deposits with banks and other financial institutions	6	34,371	41,490
Financial assets at fair value through profit or loss	7	311	151
Available-for-sale investment securities	8	24,973	129,876
Available-for-sale investment securities pledged under repurchase agreements	8	13,903	–
Held-to-maturity investment securities	9	81,000	5,910
Held-to-maturity investment securities pledged under repurchase agreements	9	42,634	–
Long-term loans to banks	10	132,032	58,795
Loans to customers	11	108,276	37,625
Inventories – real estate objects	13	50	4,929
Investment property	14	52,879	53,480
Property and equipment	15	53,207	50,000
Other assets	16	1,978	8,811
<b>Total assets</b>		<b>611,532</b>	<b>411,112</b>
<b>Liabilities</b>			
Due to banks and other financial institutions	17	58,669	49,586
Current customer accounts		4,788	3,313
Financial liabilities at fair value through profit or loss	7	21,705	–
Long-term loans of banks	18	20,540	–
Debt securities issued	19	112,759	–
Other liabilities	16	3,656	5,841
<b>Total liabilities</b>		<b>222,117</b>	<b>58,740</b>
<b>Equity</b>			
Subscribed capital	20	1,300,000	1,300,000
Callable capital		(1,027,382)	(1,058,685)
<b>Paid-in capital</b>		<b>272,618</b>	<b>241,315</b>
Revaluation reserve for available-for-sale investment securities		(999)	214
Revaluation reserve for property and equipment		35,095	33,375
Foreign currency translation reserve		(224)	(1,219)
Retained earnings less net income for the year		78,687	76,059
Net income for the year		4,238	2,628
<b>Total equity</b>		<b>389,415</b>	<b>352,372</b>
<b>Total equity and liabilities</b>		<b>611,532</b>	<b>411,112</b>

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

Demchigjav Molomjamts

Acting Chairman of the Board

Eugeny Atanassov

Managing Director of the Financial Department

16 March 2015

*The accompanying notes 1-32 are an integral part of these consolidated financial statements.*

	<i>Note</i>	<i>2014</i>	<i>2013</i>
<b>Financial result from continuing operations</b>			
Interest income	23	16,799	13,353
Interest expenses	23	(4,777)	(432)
<b>Net interest income</b>		<b>12,022</b>	<b>12,921</b>
Allowance for impairment of loans to customers	11	(3,572)	(10,105)
<b>Net interest income after allowance for loan impairment</b>		<b>8,450</b>	<b>2,816</b>
Fee and commission income		42	114
Fee and commission expense		(117)	(72)
<b>Net fee and commission income</b>		<b>(75)</b>	<b>42</b>
Net gains/(losses) from foreign currencies	24	2,361	(2,682)
Net gains from available-for-sale investment securities	20	5,165	5,659
Income from lease of investment property	14	8,116	7,959
Net losses from impairment/disposal of assets held for sale	12	–	(3,588)
Income from revaluation of investment property	14	257	–
Dividend income		–	362
Revenues from sales of inventory	13	3,569	3,727
Other income	25	–	10,763
Other expenses	25	(225)	–
<b>Net non-interest income</b>		<b>19,243</b>	<b>22,200</b>
<b>Operating income</b>		<b>27,618</b>	<b>25,058</b>
Allowance for impairment of other assets	16	(1,730)	(152)
General and administrative expenses	26	(16,931)	(16,751)
Cost of inventories sold	13	(4,305)	(3,346)
Other operating expenses		(414)	(2,181)
<b>Operating expenses</b>		<b>(23,380)</b>	<b>(22,430)</b>
<b>Net income for the year</b>		<b>4,238</b>	<b>2,628</b>

	<i>Note</i>	<i>2014</i>	<i>2013</i>
<b>Net income for the year</b>		<u>4,238</u>	<u>2,628</u>
<b>Other comprehensive income/(loss)</b>			
<i>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:</i>			
Net unrealized losses on available-for-sale investment securities		(1,213)	(4,126)
Translation differences		<u>995</u>	<u>(1,219)</u>
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>		<u>(218)</u>	<u>(5,345)</u>
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Revaluation of property and equipment	15	<u>1,720</u>	<u>–</u>
<b>Net other comprehensive income not to be reclassified to profit or loss in subsequent periods</b>		<u>1,720</u>	<u>–</u>
<b>Other comprehensive income/(loss)</b>		<u>1,502</u>	<u>(5,345)</u>
<b>Total comprehensive income/(loss) for the year</b>		<u><u>5,740</u></u>	<u><u>(2,717)</u></u>



	<i>Subscribed capital</i>	<i>Callable capital</i>	<i>Revaluation reserve for available-for-sale investment securities</i>	<i>Revaluation reserve for property and equipment</i>	<i>Foreign currency translation reserve</i>	<i>Retained earnings</i>	<i>Total equity</i>
<b>At 31 December 2012</b>	<b>1,300,000</b>	<b>(1,134,752)</b>	<b>4,340</b>	<b>33,375</b>	<b>–</b>	<b>152,126</b>	<b>355,089</b>
Profit for the year	–	–	–	–	–	2,628	<b>2,628</b>
Other comprehensive income for the year	–	–	(4,126)	–	(1,219)	–	<b>(5,345)</b>
<b>Total comprehensive income</b>	<b>–</b>	<b>–</b>	<b>(4,126)</b>	<b>–</b>	<b>(1,219)</b>	<b>2,628</b>	<b>(2,717)</b>
Contributions to capital (Note 20)	–	76,067	–	–	–	(76,067)	–
<b>At 31 December 2013</b>	<b>1,300,000</b>	<b>(1,058,685)</b>	<b>214</b>	<b>33,375</b>	<b>(1,219)</b>	<b>78,687</b>	<b>352,372</b>
Profit for the year	–	–	–	–	–	4,238	<b>4,238</b>
Other comprehensive income for the year	–	–	(1,213)	1,720	995	–	<b>1,502</b>
<b>Total comprehensive income</b>	<b>–</b>	<b>–</b>	<b>(1,213)</b>	<b>1,720</b>	<b>995</b>	<b>4,238</b>	<b>5,740</b>
Contributions to capital (Note 20)	–	31,303	–	–	–	–	<b>31,303</b>
<b>At 31 December 2014</b>	<b>1,300,000</b>	<b>(1,027,382)</b>	<b>(999)</b>	<b>35,095</b>	<b>(224)</b>	<b>82,925</b>	<b>389,415</b>

	<i>Note</i>	<i>2014</i>	<i>2013</i>
<b>Cash flows from operating activities</b>			
Interest, fees and commissions received from deposits and long-term loans to banks and other financial institutions, and loans to customers		8,495	7,144
Interest, fees and commissions paid		(1,342)	(447)
Net receipts from trading with foreign currencies		3,426	56
Cash flows from lease of investment property		8,116	7,959
General and administrative expenses		(16,592)	(15,932)
Other operating expenses on banking operations		(426)	(585)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>1,677</b>	<b>1,805</b>
<i>Net (increase)/decrease in operating assets</i>			
Deposits with banks and other financial institutions		10,857	50,129
Long-term loans to banks		(70,127)	(58,787)
Loans to customers		(72,944)	7,406
Inventories – real estate objects		806	(4,205)
Assets held for sale		–	5,985
Other assets		5,938	(110)
<i>Net increase/(decrease) in operating liabilities</i>			
Due to banks and other financial institutions		6,978	46,208
Current customer accounts		1,452	921
Other liabilities		(541)	17
<b>Net cash flows from operating activities</b>		<b>(115,904)</b>	<b>45,759</b>
<b>Cash flows from investing activities</b>			
Purchase of available-for-sale investment securities		(295,580)	(187,058)
Proceeds from sale and redemption of investment securities		284,823	161,660
Purchase of held-to-maturity investment securities		(7,139)	(5,958)
Proceeds from redemption of investment financial assets held to maturity		5,626	–
Investment in investment property		(154)	(43)
Acquisition of property and equipment		(1,817)	(791)
<b>Net cash flows from investing activities</b>		<b>(14,241)</b>	<b>(32,190)</b>
<b>Cash flows from financing activities</b>			
Long-term interbank financing raised		17,852	–
Long-term interbank financing repaid		(262)	–
Placement of bonds		131,070	–
Redemption of bonds		(1,846)	–
Contributions to capital		31,303	–
<b>Net cash flows from financing activities</b>		<b>178,117</b>	<b>–</b>
Effect of exchange rate changes on cash and cash equivalents		(2,099)	(1,931)
<b>Net increase in cash and cash equivalents</b>		<b>45,873</b>	<b>11,638</b>
<b>Cash and cash equivalents, beginning</b>		<b>20,045</b>	<b>8,407</b>
<b>Cash and cash equivalents, ending</b>	5	<b>65,918</b>	<b>20,045</b>

## 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, has operated since 1 January 1971 and 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 Mashki Poryvaevoi St., Moscow, Russia.

The Group had an average of 179 staff employees during 2014 (2013: 166).

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 difficult international environment and the risk of unpredictable deterioration in 2014 of the financial climate in the country where the Bank’s head office is located, the Group continues to expand its operations.

- ▶ Rating agencies have highly recognized the new risk management system applied by the IIB.
- ▶ The country structure of the loan portfolio has been diversified.
- ▶ Loan tools continue to undergo modification. For example, the Bank has focused on providing syndicated lending together with leading financial institutions.
- ▶ IIB placed its debt securities on Russian and Slovak domestic markets and borrowed funds from the Societe Generale Group.
- ▶ On 29 August 2014, the Moody’s rating agency assigned a credit rating of A3 with “stable” outlook to the Bank.
- ▶ Hungary re-enters the Bank. At the 102th meeting of the IIB’s Council (Sofia, 20-21 November 2014), member countries unanimously approved the Hungary’s re-entering the Bank.
- ▶ At the suggestion of the Slovak delegation and the Board of the Bank, the Council made a decision to open a regional branch of the Bank in Bratislava (the Slovak Republic).

### Member countries of the Bank

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

<i>Member countries</i>	<i>2014</i> %	<i>2013</i> %
Russian Federation	55.031	58.026
Republic of Bulgaria	15.481	12.365
Czech Republic	11.142	12.587
Slovak Republic	7.880	6.294
Romania	6.769	7.647
Republic of Cuba	1.966	2.222
Socialist Republic of Vietnam	1.346	0.424
Mongolia	0.385	0.435
	<b>100.000</b>	<b>100.000</b>

## **1. Principal activities (continued)**

### **Member countries of the Bank (continued)**

The decision of the 99th meeting of the Bank's Council on the additional capitalization in the amount of EUR 100 million is being implemented. During 2014, member countries made additional contributions to the share capital of the Bank as follows: In February 2014, the Slovak Republic made a contribution of EUR 6.3 million; in May 2014, the Russian Federation made a contribution of EUR 10 million; in July 2014, the Republic of Bulgaria fulfilled its obligations to ensure additional capitalization of the Bank in the amount of EUR 12.4 million; in October 2014, the Socialist Republic of Vietnam made a contribution of EUR 2.6 million.

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.

The decisions of the 101st meeting of the Bank's Council (May 2014) establish a basis for the further development of the International Investment Bank as a multilateral bank for development. The member countries have launched the process of signing the Protocol on introducing changes to the Agreement on the Establishment of IIB and the Statutes.

### **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.

### **Subsidiaries**

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.

### **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.

## 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. Russian ruble is the functional currency of the Group’s subsidiary as it reflects the economic substance of the underlying operations conducted by the company and circumstances affecting its operations.

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 2014:

#### *Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)*

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment is not relevant to the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

#### *IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32*

These amendments clarify the meaning of “currently has a legally enforceable right to set-off” and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments had no impact on the Group’s financial position.

#### *IFRIC Interpretation 21 Levies (IFRIC 21)*

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. This IFRIC had no impact on the Group’s consolidated financial statements as it has applied the recognition principles under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21 in prior years.

#### *IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39*

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. This amendment is not relevant to the Group, since the Group has not novated its derivatives during the current period.

#### *Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36*

These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognized or reversed during the period. These amendments had no impact on the Group’s financial position or performance.

### **3. Summary of accounting policies (continued)**

#### **Foreign currency transactions**

The consolidated financial statements are presented in Euro, which is the Bank'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.

#### **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.

### 3. Summary of accounting policies (continued)

#### **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 28.

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.

#### **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.

### 3. Summary of accounting policies (continued)

#### Financial assets (continued)

##### *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 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 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.



### 3. Summary of accounting policies (continued)

#### Repurchase and reverse repurchase agreements and securities lending (continued)

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.

##### *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.

### 3. Summary of accounting policies (continued)

#### Leases (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.

##### *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 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.

### 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 cost 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.

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.

### 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. In case loan is not impaired after restructuring the Group recalculates the effective interest rate.

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.

##### *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.

### 3. Summary of accounting policies (continued)

#### 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:

	<u>Years</u>
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.

#### 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.

### **3. Summary of accounting policies (continued)**

#### **Investment property (continued)**

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.

#### **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.

### 3. Summary of accounting policies (continued)

#### 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.

#### Segment reporting

The reportable segments of the Group comprise the following operating segments: Credit and investment activity, Treasury, Other operations.

### 3. Summary of accounting policies (continued)

#### Future changes in accounting policies

##### *Standards and interpretations issued but not yet effective*

The standards and interpretations that are 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 is effective for annual periods beginning on or after 1 January 2018, with early application 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.

##### *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 in 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 2017 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 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

##### *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 effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.



### 3. Summary of accounting policies (continued)

#### Future changes in accounting policies (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 to 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 Separate Financial Statements*

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate 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 Bank currently considers whether to apply these amendments for preparation of its separate 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. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognized only to the extent of unrelated investors' interests in that former subsidiary. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Earlier application is permitted.

### 3. Summary of accounting policies (continued)

#### Future changes in accounting policies (continued)

##### *Annual improvements 2010-2012 Cycle*

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. 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.

##### *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 IFRS 9 (or IAS 39, as applicable).

##### *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.

##### *IFRS 13 Short-term Receivables and Payables – Amendments to IFRS 13*

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.

##### *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.

##### *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.

### 3. Summary of accounting policies (continued)

#### Future changes in accounting policies (continued)

##### *Annual improvements 2011-2013 Cycle*

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. 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.

##### *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 IFRS 9 (or IAS 39, as applicable).

##### *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.

##### *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 has no impact on the Group, since the Group is an existing IFRS preparer.

##### *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 must be applied for annual periods beginning on or after 1 January 2016, with earlier application 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.

### **3. Summary of accounting policies (continued)**

#### **Future changes in accounting policies (continued)**

##### *IFRS 7 Financial Instruments: Disclosures – 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 for annual periods beginning on or after 1 January 2016, with earlier application 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 must be applied for annual periods beginning on or after 1 January 2016, with earlier application 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. The amendment should be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application 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 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.

#### **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 26.

###### ***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 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 21 November 2014 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 method may differ from the prices of actual transactions on the real estate market. Starting from 21 November 2014, 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 21 November 2014 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 method may differ from the prices of actual transactions on the real estate market. The Group believes that as at 31 December 2014, 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 13 – Inventories – real estate objects.
- ▶ Note 14 – Investment property.
- ▶ Note 15 – Property and equipment.
- ▶ Note 21 – Contingencies and lending commitments.

## 5. Cash and cash equivalents

Cash and cash equivalents comprise:

	<i>2014</i>	<i>2013</i>
<b>Cash on hand</b>	<b>392</b>	<b>970</b>
<b>Nostro accounts with banks and other financial institutions</b>		
Credit rating AAA	11	2,148
Credit rating from A- to A+	13,377	838
Credit rating from BBB- to BBB+	25	198
<b>Total Nostro accounts with banks and other financial institutions</b>	<b>13,413</b>	<b>3,184</b>
<b>Short-term deposits with banks</b>		
Term deposits with banks		
Credit rating from AA- to AA+	16,464	-
Credit rating from A- to A+	8,232	6,500
Credit rating from BBB- to BBB+	255	4,272
Credit rating from BB- to BB+	10,005	-
Credit rating from B- to B+	17,157	-
<b>Total short-term deposits with banks</b>	<b>52,113</b>	<b>10,772</b>
<b>Collateral on credit transactions with banks</b>		
No credit rating	-	5,119
<b>Cash and cash equivalents</b>	<b>65,918</b>	<b>20,045</b>

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

## 6. Deposits with banks and other financial institutions

Deposits with banks and other financial institutions comprise:

	<i>2014</i>	<i>2013</i>
<b>Term deposits with banks up to 1 year</b>		
Credit rating from BBB- to BBB+	3,479	-
Credit rating from BB- to BB+	432	1,028
Credit rating from B- to B+	30,460	40,462
<b>Deposits with banks and other financial institutions</b>	<b>34,371</b>	<b>41,490</b>

### Amounts due from the National Bank of the Republic of Cuba

	<i>2014</i>	<i>2013</i>
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)
<b>Term deposits with the National Bank of the Republic of Cuba</b>	<b>-</b>	<b>-</b>

Information on change in the allowance for impairment of deposits with the National Bank of the Republic of Cuba is presented below:

	<i>2014</i>	<i>2013</i>
<b>At 1 January</b>	<b>34,967</b>	<b>35,119</b>
(Reversal)/charge of allowance for impairment due to changes in exchange rates	-	(152)
<b>At 31 December</b>	<b>34,967</b>	<b>34,967</b>

## 6. Deposits with banks and other financial institutions (continued)

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

As at 31 December 2014, the Group had one counterparty (2013: 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.

## 7. Financial assets 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 of 31 December 2014 and 31 December 2013 and notional amounts of term contracts for the purchase and sale of foreign currency specifying contractual exchange rates.

	<i>31 December 2014</i>				
	<i>Notional amount</i>		<i>Exchange rate</i>	<i>Fair value</i>	
	<i>Purchase</i>	<i>Sale</i>		<i>Assets</i>	<i>Liabilities</i>
Swaps	3,700,000 RUB'000	67,565 EUR'000	–	–	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
				<b>311</b>	<b>21,705</b>
<b>Financial assets at fair value through profit or loss</b>					
				<b>311</b>	<b>21,705</b>

	<i>31 December 2013</i>				
	<i>Notional amount</i>		<i>Exchange rate</i>	<i>Fair value</i>	
	<i>Purchase</i>	<i>Sale</i>		<i>Assets</i>	<i>Liabilities</i>
Term transactions	14,400 EUR'000	19,646 USD'000	1.36		151

On 30 April 2014 and 4 December 2014, due to issuing RUB-denominated bond loans (Note 19), the Group concluded cross currency interest rate swaps and a currency forward on an arm's length basis with three 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 year end and are not indicative of the credit risk.

## 7. Financial assets at fair value through profit or loss (continued)

### Foreign currency transactions (continued)

As at 31 December 2014 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:

	<i>2014</i>	<i>2013</i>
<b>Quoted debt securities</b>		
Government bonds of member countries and bonds of regional governments:		
<i>Eurobonds issued by governments of member countries</i>	11,202	32,126
<i>Bonds of regional governments</i>	3,395	3,252
<b>Government bonds of member countries and bonds of regional governments</b>	<b>14,597</b>	<b>35,378</b>
<b>Corporate bonds</b>		
<i>Credit rating from A- to A+</i>	–	46,488
<i>Credit rating from BBB- to BBB+</i>	10,373	45,193
<b>Corporate bonds</b>	<b>10,373</b>	<b>91,681</b>
<b>Total quoted debt securities</b>	<b>24,970</b>	<b>127,059</b>
<b>Quoted equity instruments</b>		
<i>Credit rating BB</i>	–	2,817
<i>No credit rating</i>	3	–
<b>Total quoted equity instruments</b>	<b>3</b>	<b>2,817</b>
<b>Available-for-sale investment securities</b>	<b>24,973</b>	<b>129,876</b>
<i>Available-for-sale securities pledged under repurchase agreements</i>		
<b>Quoted debt securities</b>		
<i>Government bonds of member countries</i>	13,903	–
<b>Total Government bonds of member countries</b>	<b>13,903</b>	–
<b>Available-for-sale securities pledged under repurchase agreements</b>	<b>13,903</b>	–

*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 2017-2024 (2013: maturing in 2017-2020). The annual coupon rate for these bonds varies from 2.9% to 5.0% (2013: from 3.6% to 6.5%).

*Bonds of regional governments* represent EUR-denominated bonds issued by the city of Bucharest, Romania and Moscow, RF, maturing in 2015-2016 (2013: maturing in 2016). The annual coupon rate for these bonds varies from 4.1% to 5.1% (2013: 5.1%).

*Corporate bonds* are represented by the bonds issued by major companies and banks of member countries and EU countries, maturing in 2015-2020 (2013: maturing in 2016-2023). The annual coupon rate for these bonds varies from 5.0% to 8.1% (2013: from 2.9% to 7.9%).



## 8. Available-for-sale investment securities (continued)

### Reclassifications

In 2014 the Group reclassified certain actively quoted securities out of available for sale category to held-to-maturity securities in connection with the intention to hold these securities to maturity. Information about the reclassified financial assets is presented in the table below:

	<u>2014</u>	<u>2013</u>
Carrying amount as at 31 December	123,634	–
Fair value as at 31 December	99,868	–
Fair value as at the date of reclassification	120,471	–
Fair value gain/(loss) that would have been recognized in the comprehensive income for the year if the reclassification had not been made	(20,603)	–
Fair value gain/(loss) that have been recognized in the comprehensive income for the year	198	–
Gain/(loss), income/(expense) recognized in profit or loss for the year	3,793	–

The effective interest rate of the reclassified financial assets designated as at the date of reclassification varies from 2.7% to 4.4% for securities in EUR, from 4.3% to 6.1% for securities in USD and from 8.3% to 12.4% for securities in RUB. Current value of estimated cash flows, which the Group expects to recover, equals the fair value of the reclassified financial assets as of the reclassification date. The value of undiscounted future cash flows from reclassified securities totals EUR 152,080 thousand.

## 9. Held-to-maturity investment securities

Held-to-maturity investment securities comprise:

	<u>2014</u>	<u>2013</u>
<b><i>Owned by the Bank</i></b>		
<b>Quoted debt securities</b>		
<i>Government bonds of member countries</i>	11,951	–
<b>Total government bonds of member countries</b>	<u>11,951</u>	<u>–</u>
<b>Corporate bonds</b>		
<i>Credit rating from A- to A+</i>	17,536	–
<i>Credit rating from BBB- to BBB+</i>	45,683	–
<i>Credit rating from BB- to BB+</i>	5,830	–
<i>Credit rating B+</i>	–	5,910
<b>Total corporate bonds</b>	<u>69,049</u>	<u>5,910</u>
<b>Total held-to-maturity investment securities</b>	<u><u>81,000</u></u>	<u><u>5,910</u></u>
<b><i>Held-to-maturity investment securities pledged under repurchase agreements</i></b>		
<b>Quoted debt securities</b>		
<i>Corporate bonds with credit rating BBB-</i>	42,634	–
<b>Total corporate bonds</b>	<u>42,634</u>	<u>–</u>
<b>Held-to-maturity investment securities pledged under repurchase agreements</b>	<u><u>42,634</u></u>	<u><u>–</u></u>

*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 2018-2020 (2013: no). The annual coupon rate for these bonds varies from 3.6% to 7.9% (2013: no).

*Corporate bonds* are represented by the bonds issued by major companies and banks of member countries and EU countries, maturing in 2016-2025 (2013: maturing in 2014). The annual coupon rate for these bonds varies from 5.0% to 8.1% (2013: 8.3%).

## 10. Long-term loans to banks

During the 2014 the Group continued its lending activities, guiding 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 2014 and 2013, the Group provided long-term loans to banks operating in the following countries:

	<u>2014</u>	<u>2013</u>
Russian Federation	89,874	20,058
Mongolia	26,986	23,522
Socialist Republic of Vietnam	15,172	15,215
<b>Total long-term loans to banks</b>	<b><u>132,032</u></b>	<b><u>58,795</u></b>

As at 31 December 2014 and 31 December 2013, outstanding long-term loans to banks are neither past due nor impaired, and allowances for impairment of these loans were not made.

### 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 2014 and 31 December 2013:

	<u>2014</u>		<u>2013</u>	
	<i>Long-term loans to banks</i>	<i>Share in the total loans, %</i>	<i>Long-term loans to banks</i>	<i>Share in the total loans, %</i>
Pledge of real property (mortgage) and title	5,964	4.5	6,012	10.2
Uncollateralized part of the loans	126,068	95.5	52,783	89.8
	<b><u>132,032</u></b>	<b><u>100.0</u></b>	<b><u>58,795</u></b>	<b><u>100.0</u></b>

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

### Concentration of long-term loans to banks

As at 31 December 2014, long-term loans to five banks (2013: 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 statement of financial position. As at 31 December 2014, the total amount of such major loans was EUR 85,049 thousand (2013: EUR 48,647 thousand) and no impairment allowances (2013: no allowances) has been made for them.

## 11. Loans to customers

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

	<u>2014</u>	<u>2013</u>
Slovak Republic	48,345	7,915
Republic of Bulgaria	31,094	5,775
Mongolia	23,822	23,935
Romania	5,958	–
Russian Federation	2,646	–
<b>Total loans to customers</b>	<b><u>111,865</u></b>	<b><u>37,625</u></b>
Less: allowance for loan impairment	(3,589)	–
<b>Loans to customers</b>	<b><u>108,276</u></b>	<b><u>37,625</u></b>

## 11. Loans to customers (continued)

The information on the overdue loans as at December 31, 2014 and December 31, 2013 is stated below:

	<u>2014</u>	<u>2013</u>
Loans with overdue principal and/or interest	8,107	–
Less: allowance for loan impairment	(3,589)	–
<b>Overdue loans to customers</b>	<b><u>4,518</u></b>	<b><u>–</u></b>

As at 31 December 2014 and 31 December 2013, 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:

	<i>Russian Federation</i>	<i>Republic of Bulgaria</i>	<i>Slovak Republic</i>	<i>Total</i>
<b>At 1 January 2014</b>	–	–	–	–
Net charge/(reversal) for the year	(2)	(15)	3,589	<b>3,572</b>
Recoveries	2	15	–	<b>17</b>
<b>At 31 December 2014</b>	<b>–</b>	<b>–</b>	<b>3,589</b>	<b>3,589</b>
<b>Individual impairment</b>	<b>–</b>	<b>–</b>	<b>3,589</b>	<b>3,589</b>
<b>Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance</b>	<b><u>–</u></b>	<b><u>–</u></b>	<b><u>8,107</u></b>	<b><u>8,107</u></b>

As at 31 December 2013 there were no impaired loans, the allowance for impairment was not created.

	<i>Russian Federation</i>	<i>Mongolia</i>	<i>Republic of Bulgaria</i>	<i>Total</i>
<b>At 1 January 2013</b>	<b>69,029</b>	<b>5,808</b>	<b>2,927</b>	<b>77,764</b>
Net charge/(reversal) for the year	9,977	131	(3)	<b>10,105</b>
Write off against previously charged allowance upon sale of the debt	(39,629)	(5,010)	–	<b>(44,639)</b>
Write off against previously charged allowance based on the Council's decision	(39,377)	(891)	(2,924)	<b>(43,192)</b>
Change in allowance resulting from changes in exchange rates	–	(38)	–	<b>(38)</b>
<b>At 31 December 2013</b>	<b><u>–</u></b>	<b><u>–</u></b>	<b><u>–</u></b>	<b><u>–</u></b>

### Analysis of collateral

The following table provides an analysis of the customer loan portfolio, net of allowance for impairment, by types of collateral as at 31 December 2014 and 31 December 2013:

	<u>2014</u>		<u>2013</u>	
	<i>Loans net of allowance for impairment</i>	<i>Share in the total loans, %</i>	<i>Loans net of allowance for impairment</i>	<i>Share in the total loans, %</i>
Pledge of real property (mortgage) and title	29,508	27.2	28,006	74.4
Pledge of equipment and goods in turnover	1,706	1.6	–	–
Pledge of shares	25,947	24	–	–
Pledge of right of claim	12,517	11.6	–	–
Uncollateralized part of the loans	38,598	35.6	9,619	25.6
<b>Total loans to customers</b>	<b><u>108,276</u></b>	<b><u>100.0</u></b>	<b><u>37,625</u></b>	<b><u>100.0</u></b>

The amounts shown in the table above represent the carrying amount of the customer loan portfolio, and do not necessarily represent the fair value of the collateral.

## 11. Loans to customers (continued)

### Concentration of loans to customers

As at 31 December 2014, loans to four borrowers (2013: four borrowers) with the total amount of loans to each of the two borrowers exceeding 10% of total loans to customers were recorded in the Group's statement of financial position. As at 31 December 2014, these loans total comprised EUR 65,405 thousand (2013: EUR 37,625 thousand) and no impairment allowances (2013: 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:

	<u>2014</u>	<u>2013</u>
Pipeline transportation	25,080	–
Construction of buildings	20,948	20,188
Leasing	19,427	–
Production of vehicles	14,892	–
Communication service	11,056	–
Food and beverage	9,443	9,522
Specialized construction	8,107	7,915
Trading	2,646	–
Other	266	–
Less: allowance for loan impairment	<u>111,865</u>	<u>37,625</u>
<b>Total loans to customers</b>	<u>(3,589)</u>	<u>–</u>
	<u><b>108,276</b></u>	<u><b>37,625</b></u>

## 12. Assets held for sale

In 2012 as a repayment of a portion of an impaired loan, the Group received power equipment. The loan was issued to a borrower operating in the electric power industry. In 2013 the Group recognized the asset impairment in the amount of EUR 3,588 thousand within "Net (losses)/gains from impairment/disposal of assets held for sale" in the consolidated income statement. In December 2013 the asset was sold to an independent customer at its carrying amount.

## 13. Inventories – real estate objects

In January 2013, as part of efforts taken in respect of distressed loans, the Group acquired from the borrower real estate objects (finished apartments) held for resale. In 2014, the Group sold certain apartments and earned EUR 3,569 thousand (2013: EUR 3,727 thousand). The cost of apartments sold in 2014 is EUR 4,879 thousand (2013: EUR 3,346 thousand).

As at 31 December 2014, the carrying amount of unsold apartments was EUR 50 thousand (2013: EUR 4,929 thousand).

## 14. Investment property

In 2014 and 2013, the following changes occurred in the cost of property under operating lease:

	<u>2014</u>	<u>2013</u>
<b>At 1 January</b>	<b>53,480</b>	<b>52,409</b>
Inseparable improvements	154	43
Transfers	(1,012)	1,028
Effect of revaluation	257	–
<b>Carrying amount at 31 December</b>	<u><b>52,879</b></u>	<u><b>53,480</b></u>

## 14. Investment property (continued)

The Group rents part of the building under operating lease agreements. In 2014, the Group's income from lease of investment property amounted to EUR 8,116 thousand (2013: EUR 7,959 thousand).

As at 31 December 2014, the fair value of investment property is determined based on the results of valuation performed on 21 November 2014. 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 2014 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 28.

If the investment property was measured using the cost method, the carrying amounts as at 31 December 2014 and 31 December 2013 would be as follows:

	<u>2014</u>	<u>2013</u>
Cost	29,486	29,331
Accumulated depreciation	(11,360)	(10,903)
<b>Net book value</b>	<b><u>18,126</u></b>	<b><u>18,428</u></b>

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.

## 15. Property and equipment

The movements in property and equipment for the year ended 31 December 2014 were as follows:

	<i>Buildings</i>	<i>Equipment</i>	<i>Computers and software</i>	<i>Office furniture</i>	<i>Vehicles</i>	<i>Improvements</i>	<i>Total</i>
<b>Cost</b>							
<b>At 1 January 2014</b>	<b>49,398</b>	<b>7,329</b>	<b>2,858</b>	<b>497</b>	<b>749</b>	–	<b>60,831</b>
Inseparable improvements	149	–	–	–	–	–	<b>149</b>
Additions	–	180	475	51	215	766	<b>1,687</b>
Transfers	1,012	–	–	–	–	–	<b>1,012</b>
Disposals	–	(440)	(78)	(62)	(41)	–	<b>(621)</b>
Recovery of accumulated depreciation upon revaluation	(1,473)	–	–	–	–	–	<b>(1,473)</b>
Effect of revaluation	1,720	–	–	–	–	–	<b>1,720</b>
<b>At 31 December 2014</b>	<b><u>50,806</u></b>	<b><u>7,069</u></b>	<b><u>3,255</u></b>	<b><u>486</u></b>	<b><u>923</u></b>	<b><u>766</u></b>	<b><u>63,305</u></b>
<b>Accumulated depreciation</b>							
<b>At 1 January 2014</b>	<b>(757)</b>	<b>(6,768)</b>	<b>(2,381)</b>	<b>(357)</b>	<b>(568)</b>	–	<b>(10,831)</b>
Charge for the year	(783)	(195)	(288)	(20)	(71)	–	<b>(1,357)</b>
Disposals	–	440	78	58	41	–	<b>617</b>
Recovery of accumulated depreciation upon revaluation	1,473	–	–	–	–	–	<b>1,473</b>
<b>At 31 December 2014</b>	<b><u>(67)</u></b>	<b><u>(6,523)</u></b>	<b><u>(2,591)</u></b>	<b><u>(319)</u></b>	<b><u>(598)</u></b>	–	<b><u>(10,098)</u></b>
<b>Net book value</b>							
<b>At 31 December 2013</b>	<b><u>48,641</u></b>	<b><u>561</u></b>	<b><u>477</u></b>	<b><u>140</u></b>	<b><u>181</u></b>	–	<b><u>50,000</u></b>
<b>At 31 December 2014</b>	<b><u>50,739</u></b>	<b><u>546</u></b>	<b><u>664</u></b>	<b><u>167</u></b>	<b><u>325</u></b>	<b><u>766</u></b>	<b><u>53,207</u></b>

## 15. Property and equipment (continued)

The movements in property and equipment for the year ended 31 December 2013 were as follows:

	<i>Buildings</i>	<i>Equipment</i>	<i>Computers and software</i>	<i>Office furniture</i>	<i>Vehicles</i>	<i>Total</i>
<b>Cost</b>						
<b>At 1 January 2013</b>	<b>50,354</b>	<b>8,233</b>	<b>3,478</b>	<b>493</b>	<b>583</b>	<b>63,141</b>
Inseparable improvements	72	–	–	–	–	72
Additions	–	118	396	24	181	719
Disposals	–	(1,022)	(1,016)	(20)	(15)	(2,073)
Transfers	(1,028)	–	–	–	–	(1,028)
<b>At 31 December 2013</b>	<b>49,398</b>	<b>7,329</b>	<b>2,858</b>	<b>497</b>	<b>749</b>	<b>6,831</b>
<b>Accumulated depreciation</b>						
<b>At 1 January 2013</b>	–	(7,598)	(3,179)	(357)	(558)	(11,692)
Charge for the year	(757)	(185)	(196)	(19)	(25)	(1,182)
Disposals	–	1,015	994	19	15	2,043
<b>At 31 December 2013</b>	<b>(757)</b>	<b>(6,768)</b>	<b>(2,381)</b>	<b>(357)</b>	<b>(568)</b>	<b>(10,831)</b>
<b>Net book value</b>						
<b>At 31 December 2012</b>	<b>50,354</b>	<b>635</b>	<b>299</b>	<b>136</b>	<b>25</b>	<b>51,449</b>
<b>At 31 December 2013</b>	<b>48,641</b>	<b>561</b>	<b>477</b>	<b>140</b>	<b>181</b>	<b>50,000</b>

As at 31 December 2014, the cost of fully depreciated property and equipment still used by the Group was EUR 8,834 thousand (2013: EUR 9,057 thousand).

As at 31 December 2014, the fair value of a group of buildings owned by the Group is determined based on the results of valuation performed on 21 November 2014. 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 2014 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 28.

If the buildings were measured using the cost method, the carrying amounts as at 31 December 2014 and 31 December 2013 would be as follows:

	<b>2014</b>	<b>2013</b>
Cost	28,328	28,179
Accumulated depreciation	(10,880)	(10,459)
<b>Net book value</b>	<b>17,448</b>	<b>17,720</b>

*(intentionally blank)*

## 16. Other assets and liabilities

Other assets comprise:

	<i>2014</i>	<i>2013</i>
Other accounts receivable	2,900	8,109
Advance payments and future period expenses	841	1,111
Deferred tax assets	–	2
	<u>3,741</u>	<u>9,222</u>
Less: allowance for impairment of accounts receivable	(1,763)	(411)
<b>Other assets</b>	<u><u>1,978</u></u>	<u><u>8,811</u></u>

The movements in other impairment allowance are as follows:

	<i>2014</i>	<i>2013</i>
<b>Allowance at 1 January</b>	<b>411</b>	<b>280</b>
Net charge for the year	1,730	152
Change in allowance resulting from changes in exchange rates	(378)	(21)
<b>Allowance at 31 December</b>	<u><u>1,763</u></u>	<u><u>411</u></u>

Other liabilities comprise:

	<i>2014</i>	<i>2013</i>
Other accounts payable	2,482	3,912
Settlements with employees	931	682
Liabilities to transfer ownership of apartments	–	690
Other	243	557
<b>Other liabilities</b>	<u><u>3,656</u></u>	<u><u>5,841</u></u>

## 17. Due to banks and other financial institutions

Due to banks and other financial institutions comprise:

	<i>2014</i>	<i>2013</i>
<b>Correspondent accounts of banks without rating</b>	–	1
Term deposits of banks:		
<i>Credit rating from BBB- to BBB+</i>	–	35,021
<i>No credit rating</i>	17,349	9,445
<b>Due to banks and other financial institutions</b>	<u>17,349</u>	<u>44,466</u>
<b>Repurchase agreements</b>	<u>41,320</u>	<u>–</u>
Collateral deposit:		
<i>No credit rating</i>	–	5,119
<b>Due to banks and other financial institutions</b>	<u><u>58,669</u></u>	<u><u>49,586</u></u>

The Group performs daily monitoring of the repurchase agreements, of the collateral's value placing/returning additional collateral if it's necessary.

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

As at 31 December 2014, the Group has four counterparties (2013: one) accounting for over 20% of the Group's total deposits from banks and other financial institutions in the amount of EUR 53,669 thousand (2013: EUR 10,001 thousand).

## **18. Long-term loans of banks**

As at 31 December 2014, the Group received a long-term loan in the amount of EUR 20,540 thousand granted by the Bank maturing in April 2016 (2013: no loans).

## **19. Debt securities issued**

On 29 April 2014, the Group placed RUB-denominated bonds, series 01, in the amount of RUB 2 billion (EUR 40,441 thousand) maturing on the 3,640th day after the first day of placement. The coupon rate on bonds was set at 9.9% p.a. and is payable twice a year, with the first coupon payment to be paid on 28 October 2014. As at 31 December 2014, issued RUB-denominated bonds, series 01, recorded at amortized cost amounted to EUR 27,708 thousand.

On 21 October 2014, the Group placed on the Slovak organized securities market EUR-denominated bonds in the amount of EUR 30,000 thousand maturing on 21 October 2019. The coupon rate on bonds was set at 3.5% p.a. and is payable once a year, with the first coupon payment to be paid on 21 October 2015. As at 31 December 2014, issued Eurobonds recorded at amortized cost amounted to EUR 30,079 thousand.

On 2 December 2014, the Group placed RUB-denominated bonds, series 03, in the amount of RUB 4 billion (EUR 60,921 thousand) maturing on the 3,640th day after the first day of placement. The coupon rate on bonds was set at 12.25% p.a. and is payable twice a year, with the first coupon payment to be paid on 2 June 2015. As at 31 December 2014, issued RUB-denominated bonds, series 03, recorded at amortized cost amounted to EUR 54,972 thousand. Among other things, the Group used the proceeds from the offerings for expanding its loan portfolio.

At the dates of placement of RUB-denominated bonds, the Group entered into cross-currency interest rate swaps for the purpose of regulating currency risks (Note 7).

## **20. 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 2014, unpaid portion of the Bank's subscribed capital in the amount of EUR 1,027,382 thousand (2013: EUR 1,058,685 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 296,900 thousand (2013: EUR 296,900 thousand).

On 6 June 2013, the 99th regular meeting of the Bank's Council adopted a decision on including a portion of the IIB's retained earnings for the previous years in the amount of EUR 76,067 thousand into the paid-in portion of the Bank's share capital proportionally to the shares of member countries in the paid-in share capital at the date of such decision.

Additionally, during the 99th meeting of the Council member countries supported the need for additional capitalization of the Bank by making additional contributions of at least EUR 100 million to the share capital. In 2014, a number of countries contributed to the share capital. Mongolia has officially announced that the payment of EUR 438.5 thousand will be made during 2015.

On 27 February 2014, the Government of the Slovak Republic fulfilled its obligations to ensure additional capitalization of the Bank assumed at the 99th meeting of the Bank's Council. Slovakia's additional contribution to the Bank's share capital in the amount of EUR 6,293.6 thousand was credited to the Bank's account.

On 8 May 2014, the Government of the Russian Federation partially fulfilled its obligations to ensure additional capitalization of the Bank. Russia's additional contribution to the Bank's share capital in the amount of EUR 10,000.0 thousand was credited to the Bank's account.



## 20. Equity (continued)

### Subscribed and paid-in capital (continued)

On 11 July 2014, the Government of the Republic of Bulgaria fulfilled its obligations to ensure additional capitalization of the Bank. Bulgaria's additional contribution to the Bank's share capital in the amount of EUR 12,364.9 thousand was credited to the Bank's account.

On 10 October 2014, the Government of the Socialist Republic of Vietnam fulfilled its obligations to ensure additional capitalization of the Bank. Vietnam's additional contribution to the Bank's share capital in the amount of EUR 2,645.0 thousand was credited to the Bank's account. As a result, the paid-in capital of International Investment Bank totaled EUR 272,618 thousand.

### Revaluation reserve for available-for-sale investment securities, revaluation reserve for property and equipment and revaluation reserve for currencies

The movements in the revaluation reserve for available-for-sale investment securities, revaluation reserve for property and equipment and revaluation reserve for currencies were as follows:

	<i>Revaluation reserve for available-for-sale investment securities</i>	<i>Revaluation reserve for property and equipment</i>	<i>Revaluation reserve for currencies</i>
<b>At 1 January 2013</b>	<b>4,340</b>	<b>33,375</b>	–
Net unrealized gains on available-for-sale investment securities	1,533	–	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(5,659)	–	–
Translation differences	–	–	(1,219)
<b>At 31 December 2013</b>	<b>214</b>	<b>33,375</b>	<b>(1,219)</b>
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	–
Translation differences	–	–	995
<b>At 31 December 2014</b>	<b>(999)</b>	<b>35,095</b>	<b>(224)</b>

### 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.

### Revaluation reserve for currencies

Revaluation reserve for currencies is used to record the subsidiary's assets and liabilities translated to the functional currency of the Group.

## 21. 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 2014, commitments and contingencies of the Group comprised undrawn loan facilities in the amount of EUR 69,296 thousand (2013: EUR 53,466 thousand). The amounts of commitments assume that amounts are fully withdrawn.

## 22. Leases

### Group as lessor

The Group provides its real estate for operating leases. As at 31 December 2014, the Group's non-cancellable operating lease rentals amount to EUR 4,742 thousand (2013: EUR 8,281 thousand) and will be settled within 1 year.

## 23. Interest income and interest expense

Net interest income comprises:

	<u>2014</u>	<u>2013</u>
Available-for-sale investment securities and held-to-maturity investment securities	5,813	4,362
Long-term loans to banks	4,793	1,013
Loans to customers	3,932	5,529
Deposits with banks and other financial institutions, including cash and cash equivalents	2,261	2,449
<b>Interest income</b>	<b><u>16,799</u></b>	<b><u>13,353</u></b>
Debt securities issued	(3,405)	–
Due to banks and other financial institutions	(601)	(349)
Long-term loans of banks	(417)	–
Current customer accounts	(146)	(71)
Other borrowed funds	(208)	(12)
<b>Interest expenses</b>	<b><u>(4,777)</u></b>	<b><u>(432)</u></b>
<b>Net interest income</b>	<b><u><u>12,022</u></u></b>	<b><u><u>12,921</u></u></b>

In 2014, interest income accrued on impaired loans to customers amounted to EUR 192 thousand (2013: EUR 105 thousand).

## 24. Net gain/(loss) from foreign currencies

Net gains less losses from foreign currencies comprise:

	<u>2014</u>	<u>2013</u>
Net (loss)/gain from revaluation of assets and liabilities in foreign currencies	20,354	(2,738)
Net gain/(loss) from trading in foreign currencies	(17,993)	56
<b>Net (loss)/gain from foreign currencies</b>	<b><u>(2,361)</u></b>	<b><u>(2,682)</u></b>

## 25. Other income

The Group's other income comprised:

	<u>2014</u>	<u>2013</u>
Income from sale of loans	–	4,837
Income from sale of property rights to participatory construction objects	–	2,835
Income from recovery of provision for potential payments (Note 16)	–	1,764
Other	(225)	1,327
<b>Total other income</b>	<b><u>(225)</u></b>	<b><u>10,763</u></b>

## 26. General and administrative expenses

General and administrative expenses comprise:

	<u>2014</u>	<u>2013</u>
Employee compensations and employment taxes	11,405	10,293
Depreciation of property and equipment (Note 15)	1,357	1,182
IT-expenses, inventory and occupancy expenses	1,447	1,842
Expenses related to business travel, representative and accommodation expenses	1,309	1,281
Professional services	1,008	1,106
Other	405	1,047
<b>General and administrative expenses</b>	<b><u>16,931</u></b>	<b><u>16,751</u></b>

## 27. Risk management

### Risk management framework

The Group's risk management policy is based on the conservative assessments 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 prudent assessment 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 Bank;
- ▶ 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.

## 27. Risk management (continued)

### Risk management framework (continued)

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 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): provides independent quality evaluation for existing risk management processes, identifies violations and makes proposals for the improvement of the risk management system.

The Group's operations are managed taking into account the level of the risk appetite which approved by the Council of the Bank 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.

### Risk management system

The Bank's Council, the Board, the Asset, Liability and Risk Committee (ALRCO), 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 business units and committees of the Bank with regard to risk management.

Risk Committee performs management and control of credit, market, operational, reputational, legal and liquidity risk, also considers proposal for establishment of risk limits.

ALRCO is the Bank's collegial body responsible for development and implementation of the risk management policy in the course of transactions. ALRCO is engaged in ongoing monitoring of liquidity, market and credit risks.

The Credit Committee is the Board's collegial body responsible for lending and assessment of risks arising from all types of credit-related transactions.

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 Group to mitigate risk impact on the Group's performance.

## 27. Risk management (continued)

### Risk management system (continued)

During 2014 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 risk management have been elaborated. The 100th meeting of the IIB Council approved the new Risk management strategy, strategic limits of the Group and risk appetite indicators for 2014;
- ▶ target model of the risk management system, based on requirements of the leading rating agencies regarding risk management.

In strict compliance with the existing procedures, twice a year the Group set limits for counterparties for the purpose of performing financial transactions and assessing their creditworthiness. As part of the lending activity analysis, classes of loan assets risk were continuously monitored and the fair value of pledged items was regularly determined. During the reporting period, the Group's specialists visited certain borrowers in order to monitor the implementation of the projects and identify potential primary evidence of loans' impairment.

To control and monitor the compliance with limits, the Group performs daily monitoring of compliance with restrictions set in the list of the Group's limits applied to transactions on money, currency and equity markets, as well as structural limits included in key risk ratios and stop-loss and take-profit limits. In addition, the Group's management receives regular reports on the status of risks within the Bank.

### Risk appetite

The risk appetite is the aggregate amount of risk taken by the Bank to achieve its strategic goals and objectives. By approving the level of risk appetite, the Bank's Council determines the willingness to take a risk (i.e. the risk appetite) or the amount of equity and liquidity that the Bank is willing to risk in the implementation of this strategy.

Risk appetite consists of 4 main components:

- ▶ the allocation of capital and liquidity (if necessary);
- ▶ targets 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 Bank;
- ▶ determining levels of tolerance.

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

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 how the specified risk appetite is acceptable in the current time period and how it will be acceptable in the future, taking into account:

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

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

## 27. Risk management (continued)

### 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 ALRCO and also communicated to the Management 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 business units 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 updated by the Group in order to reflect changed market conditions and improve risk management methods.

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 Bank'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 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 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.

Risk Committee establishes the limits per borrower/group of related borrowers. The Credit Committee structures the transaction to minimize credit risk. The Credit 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 approved by the Credit Committee and RCO, and then – the Board. The Board is responsible for all direct credit risk exposures in the amount of up to 15% of the Bank'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.

## 27. Risk management (continued)

### System of credit risk management (continued)

The corporate loan/credit application and appropriate project documents are reviewed by the Credit Department. In case of a positive decision, the set of documents from the Credit Department required for reviewing the loan/credit application shall be analyzed by the Legal Department, Risk Management Department, Security Department, Strategic Planning 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 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 Description of the Investment Transaction, report of the Security Department and Strategic Planning 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 RCO; Step 2 includes making decision on the Credit Committee; Step 3 includes making decision by the Board of the Bank (if such issue falls within its competence); Step 4 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 5 includes making decision by the Council of the Bank (if such issue falls within its competence).

### Credit risk

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 property (mortgage) and title;
- ▶ pledge of rights of demand and construction right.

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.

## **27. Risk management (continued)**

### **Credit risk (continued)**

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). The Group's internal expert opinion on the fair value of the collateral and feasibility of the adjustment coefficient (discount), which adjusts the market value, shall be approved/ reconciled with the Risk Management Department. The adjustment coefficient (discount) is established based on the table of recommended discounts "Regulations on lending operations" as at initial measurement of the collateral value. Where the market value of the collateral is assessed as impaired, the clients 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 the Bank's 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 financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum 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 21).

### ***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 client'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.



## 27. Risk management (continued)

### Credit risk (continued)

As at 31 December 2014 and 31 December 2013, 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 2014 and 31 December 2013:

<i>2014</i>	<i>Loan amount</i>	<i>Impairment</i>	<i>Loan amount, including impairment</i>	<i>Impairment to loan amount ratio, %</i>
<b>Long-term loans to banks without any signs of impairment identified</b>				
Standard loans				
- <i>Russian Federation</i>	89,874	–	89,874	–
- <i>Mongolia</i>	26,986	–	26,986	–
- <i>Socialist Republic of Vietnam</i>	15,172	–	15,172	–
	<b>132,032</b>	–	<b>132,032</b>	–
<b>Loans to customers without any signs of impairment identified</b>				
Standard loans				
- <i>Slovak Republic</i>	40,238	–	40,238	–
- <i>Republic of Bulgaria</i>	31,094	–	31,094	–
- <i>Mongolia</i>	23,822	–	23,822	–
- <i>Romania</i>	5,958	–	7,915	–
- <i>Russian Federation</i>	2,646	–	5,775	–
<b>Non-performing loans</b>				
- <i>Slovak Republic</i>	8,107	3,589	4,518	44
	<b>111,865</b>	<b>3,589</b>	<b>108,276</b>	<b>3</b>
<b>Total loans</b>	<b>243,897</b>	<b>3,589</b>	<b>240,308</b>	–
<i>2013</i>	<i>Loan amount</i>	<i>Impairment</i>	<i>Loan amount, including impairment</i>	<i>Impairment to loan amount ratio, %</i>
<b>Long-term loans to banks without any signs of impairment identified</b>				
Standard loans				
- <i>Mongolia</i>	23,522	–	23,522	–
- <i>Russian Federation</i>	20,058	–	20,058	–
- <i>Socialist Republic of Vietnam</i>	15,215	–	15,215	–
	<b>58,795</b>	–	<b>58,795</b>	–
<b>Loans to customers without any signs of impairment identified</b>				
Standard loans				
- <i>Mongolia</i>	23,955	–	23,955	–
- <i>Slovak Republic</i>	7,915	–	7,915	–
- <i>Republic of Bulgaria</i>	5,775	–	5,775	–
	<b>37,625</b>	–	<b>37,625</b>	–
<b>Total loans</b>	<b>96,420</b>	–	<b>96,420</b>	–

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.

## 27. Risk management (continued)

### Credit risk (continued)

#### *Impairment assessment*

The Group creates allowance for loan impairment that represents its estimate of losses incurred in its loan portfolio. The Group writes off a loan balance against related allowances for loan losses 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 client'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 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, 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.

The Group's approach to management of liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or taking risk of damage to the Group's reputation.

In the course of liquidity management the Group's management relies on the following principles:

- ▶ liquidity has priority over return;
- ▶ continuous liquidity management;
- ▶ distribution of authorities between management bodies and divisions;
- ▶ planning and limitation of liquidity consistent with the size, nature of business and financial position of the Group;
- ▶ forecasting of cash flows.

Liquidity risk is managed to ensure the Group's ability to meet its financial obligations in full and on a timely basis. For this purpose the Group:

- ▶ determines an acceptable liquidity level;
- ▶ continuously monitors liquidity;
- ▶ takes measures to maintain liquidity at the acceptable level;
- ▶ in case of liquidity crisis performs a set of procedures for its recovery.

The Group manages its liquidity in two areas: the Treasury Department manages the liquidity, and Risk Management Department performs control over liquidity risk.

## **27. Risk management (continued)**

### **Liquidity risk (continued)**

The Treasury Department receives on a weekly basis information from business units regarding the liquidity profile of their financial assets and liabilities and forecasts of projected cash flows arising from projected future business. Further, the Treasury Department manages the Group's liquidity in accordance with the existing regulatory documents of the Bank and ALRCO's decisions.

The Risk Management Department performs control on a weekly basis over actual values of the current and overall liquidity and compares these values with standards. In case of non-compliance of these standards, the Risk Management Department immediately notifies ALRCO about it in order to develop and perform activities for recovering liquidity.

Due to the fact that all the Group's significant liabilities are short-term with maturity of up to 1 year, the Group does not estimate contractual undiscounted liabilities' cash flows since the expected cash outflow will not be significantly different from the carrying amount of the Group's financial liabilities as at 31 December 2014 and 31 December 2013.

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.

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## 27. 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:

	2014							2013							
	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>No stated maturity</i>	<i>Past due</i>	<i>Total</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>No stated maturity</i>	<i>Total</i>
<b>Assets</b>															
Cash and cash equivalents	65,918	–	–	–	–	–	–	<b>65,918</b>	20,045	–	–	–	–	–	<b>20,045</b>
Deposits with banks and other financial institutions	8,327	20,347	5,697	–	–	–	–	<b>34,371</b>	–	23,112	18,378	–	–	–	<b>41,490</b>
Financial assets at fair value through profit or loss	311	–	–	–	–	–	–	<b>311</b>	–	97	54	–	–	–	<b>151</b>
Available-for-sale investment securities	42	7,669	750	13,599	16,813	3	–	<b>38,876</b>	150	674	1,754	44,061	80,420	2,817	<b>129,876</b>
Held-to-maturity investment securities	70	942	1,146	39,791	81,685	–	–	<b>123,634</b>	117	–	5,793	–	–	–	<b>5,910</b>
Long-term loans to banks	–	1,531	13,139	117,362	–	–	–	<b>132,032</b>	–	374	2,014	56,407	–	–	<b>58,795</b>
Loans to customers	–	901	24,168	53,763	24,926	–	4,518	<b>108,276</b>	–	430	7,832	27,463	1,900	–	<b>37,625</b>
Other assets	58	75	994	10	–	–	–	<b>1,137</b>	472	4,634	2,800	–	–	–	<b>7,906</b>
<b>Total assets</b>	<b>74,726</b>	<b>31,465</b>	<b>45,894</b>	<b>224,525</b>	<b>123,424</b>	<b>3</b>	<b>4,518</b>	<b>504,555</b>	<b>20,784</b>	<b>29,321</b>	<b>38,625</b>	<b>127,931</b>	<b>82,320</b>	<b>2,817</b>	<b>301,798</b>
<b>Liabilities</b>															
Due to banks and other financial institutions	(45,436)	(13,233)	–	–	–	–	–	<b>(58,669)</b>	(24,566)	(25,020)	–	–	–	–	<b>(49,586)</b>
Current customer accounts	(4,788)	–	–	–	–	–	–	<b>(4,788)</b>	(3,313)	–	–	–	–	–	<b>(3,313)</b>
Financial liability at fair value through profit or loss	–	–	(21,705)	–	–	–	–	<b>(21,705)</b>	–	–	–	–	–	–	–
Long-term loans of banks	(97)	–	–	(20,443)	–	–	–	<b>(20,540)</b>	–	–	–	–	–	–	–
Debt securities issued	–	–	(82,884)	(29,875)	–	–	–	<b>(112,759)</b>	–	–	–	–	–	–	–
Other liabilities	(1,356)	(49)	(2,251)	–	–	–	–	<b>(3,656)</b>	(727)	(2,944)	(1,619)	–	–	–	<b>(5,290)</b>
<b>Total liabilities</b>	<b>(51,677)</b>	<b>(13,282)</b>	<b>(106,840)</b>	<b>(50,318)</b>	–	–	–	<b>(222,117)</b>	<b>(28,606)</b>	<b>(27,964)</b>	<b>(1,619)</b>	–	–	–	<b>(58,189)</b>
<b>Net position</b>	<b>23,049</b>	<b>18,183</b>	<b>(60,946)</b>	<b>174,207</b>	<b>123,424</b>	<b>3</b>	<b>4,518</b>	<b>282,438</b>	<b>(7,822)</b>	<b>1,357</b>	<b>37,006</b>	<b>127,931</b>	<b>82,320</b>	<b>2,817</b>	<b>243,609</b>
<b>Accumulated net position</b>	<b>23,049</b>	<b>41,232</b>	<b>(19,714)</b>	<b>154,493</b>	<b>277,917</b>	<b>277,920</b>	<b>282,438</b>	–	<b>(7,822)</b>	<b>(6,465)</b>	<b>30,541</b>	<b>158,472</b>	<b>240,792</b>	<b>243,609</b>	–
<b>Off-balance credit-related commitments</b>	<b>(69,296)</b>	–	–	–	–	–	–	<b>(69,296)</b>	–	<b>(48,466)</b>	<b>(5,000)</b>	–	–	–	<b>(53,466)</b>

The accumulated negative liquidity gap in the periods of “3 months to 1 year” is formed on the basis of offers on issued ruble-denominated bonds identified at the time of issuance. Management believes that in the foreseeable future payments on these debentures will not be fully implemented. The accumulated negative liquidity gap can be offset with high liquid available for sale investment securities, that can be realized at any moment on market terms. If it is necessary the gained liquid assets can be used to meet the short term liabilities of the Group.

## 27. 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.

Risk Committee, led by the Deputy Chairman of the Bank's Management Board, coordinates the Group's market risk management policy, considers and provides to the Management Board recommendations on management of market risks.

The Treasury Department performs operative 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 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 2014 and 31 December 2013, final data on value at risk assessment in relation to currency and price risks assumed by the Group are represented as follows:

	<u>2014</u>	<u>2013</u>
Fixed income securities price risk	364	2,174
Equity securities price risk	–	335
Currency risk	945	1,211

## 27. Risk management (continued)

### Market risk (continued)

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. Using historical data for assessment of future events are not taken into account.
- ▶ 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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## 27. Risk management (continued)

### Market risk (continued)

The Group's exposure to currency risk as at 31 December 2014 and 31 December 2013 is presented below:

	2014					2013				
	EUR	USD	RUB	Other currencies	Total	EUR	USD	RUB	Other currencies	Total
<b>Assets</b>										
Cash and cash equivalents	33,801	31,655	360	102	<b>65,918</b>	9,222	331	5,170	5,322	<b>20,045</b>
Deposits with banks and other financial institutions	32,895	1,044	432	–	<b>34,371</b>	23,112	16,015	2,363	–	<b>41,490</b>
Available-for-sale investment securities	32,355	6,521	–	–	<b>38,876</b>	102,911	22,940	4,025	–	<b>129,876</b>
Held-to-maturity investment securities	55,566	63,561	4,507	–	<b>123,634</b>	–	5,910	–	–	<b>5,910</b>
Long-term loans to banks and other financial institutions	110,815	21,217	–	–	<b>132,032</b>	41,285	17,510	–	–	<b>58,795</b>
Loans to customers	108,276	–	–	–	<b>108,276</b>	37,625	–	–	–	<b>37,625</b>
Other assets	111	2	1,024	–	<b>1,137</b>	590	7	7,309	–	<b>7,906</b>
	<b>373,819</b>	<b>124,000</b>	<b>6,323</b>	<b>102</b>	<b>504,244</b>	<b>214,745</b>	<b>62,713</b>	<b>18,867</b>	<b>5,322</b>	<b>301,647</b>
<b>Liabilities</b>										
Due to banks and other financial institutions	(16,804)	(41,181)	(684)	5,119	<b>(58,669)</b>	(19,035)	(25,432)	–	(5,119)	<b>(49,586)</b>
Current customer accounts	(4,605)	(183)	–	–	<b>(4,788)</b>	(3,162)	(151)	–	–	<b>(3,313)</b>
Long-term loans of banks	–	(20,540)	–	–	<b>(20,540)</b>	–	–	–	–	–
Debt securities issued	(30,079)	–	(82,680)	–	<b>(112,759)</b>	–	–	–	–	–
Other liabilities	(2,879)	(74)	(703)	–	<b>(3,656)</b>	(3,064)	(187)	(1,999)	(40)	<b>(5,290)</b>
	<b>(54,367)</b>	<b>(61,978)</b>	<b>(84,067)</b>	–	<b>(200,412)</b>	<b>(25,261)</b>	<b>(25,770)</b>	<b>(1,999)</b>	<b>(5,159)</b>	<b>(58,189)</b>
<b>Net balance sheet position</b>	<b>319,452</b>	<b>62,022</b>	<b>(77,744)</b>	<b>102</b>	<b>303,832</b>	<b>189,484</b>	<b>36,943</b>	<b>16,868</b>	<b>163</b>	<b>243,458</b>
<b>Derivative financial instruments</b>										
Claims	33,310	–	76,915	–	<b>110,225</b>	14,400	–	–	–	14,400
Liabilities	(97,564)	(34,056)	–	–	<b>(131,620)</b>	–	(14,249)	–	–	(14,249)
<b>Net balance sheet position including derivative financial instruments</b>	<b>255,198</b>	<b>27,966</b>	<b>(829)</b>	<b>102</b>	<b>282,437</b>	<b>203,884</b>	<b>22,694</b>	<b>16,868</b>	<b>163</b>	<b>243,609</b>

## 27. 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 changes but may also reduce or create losses in the event that unexpected movements arise.

Sensitivity analysis of the Group's equity to changes in interest rate (based on simplified scenario of a 100 basis point (bp) and positions of available-for-sale debt securities parallel fall or rise in all yield curves as at 31 December 2014 and 31 December 2013) is as follows;

	<u>31 December 2014</u>	<u>31 December 2013</u>
	<u>The Bank's equity</u>	<u>The Bank's equity</u>
100 bp parallel rise	(1,387)	(6,342)
100 bp parallel fall	1,387	6,342

#### 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.

## 28. 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 Bank 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.



## 28. 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.

	<i>Valuation date</i>	<i>Level 1 2014</i>	<i>Level 2 2014</i>	<i>Level 3 2014</i>	<i>Total 2014</i>
<b>Assets measured at fair value</b>					
Derivative financial assets	31 December 2014	–	311	–	<b>311</b>
Government bonds of member countries and bonds of regional governments	31 December 2014	28,500	–	–	<b>28,500</b>
Corporate bonds	31 December 2014	10,373	–	–	<b>10,373</b>
Quoted equity instruments	31 December 2014	–	3	–	<b>3</b>
Investment property	31 December 2014	–	–	52,879	<b>52,879</b>
Property and equipment	31 December 2014	–	–	53,207	<b>53,207</b>
<b>Liabilities measured at fair value</b>					
Derivative financial liabilities	31 December 2014	–	21,705	–	<b>21,705</b>
<b>Assets for which fair values are disclosed</b>					
Cash and cash equivalents	31 December 2014	–	–	65,918	<b>65,918</b>
Deposits with banks and other financial institutions	31 December 2014	–	–	34,371	<b>34,371</b>
Held-to-maturity investment securities	31 December 2014	99,872	–	–	<b>99,872</b>
Long-term loans to banks	31 December 2014	–	–	126,485	<b>126,485</b>
Loans to customers	31 December 2014	–	–	108,276	<b>108,276</b>
<b>Liabilities for which fair values are disclosed</b>					
Due to banks and other financial institutions	31 December 2014	–	–	58,669	<b>58,669</b>
Current customer accounts	31 December 2014	–	–	4,788	<b>4,788</b>
Long-term loans of banks	31 December 2014	–	–	20,540	<b>20,540</b>
Debt securities issued	31 December 2014	–	106,351	–	<b>106,351</b>

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2013:

	<i>Valuation date</i>	<i>Level 1 2013</i>	<i>Level 2 2013</i>	<i>Level 3 2013</i>	<i>Total 2013</i>
<b>Assets measured at fair value</b>					
Derivative financial assets	31 December 2013	–	151	–	<b>151</b>
Government bonds of member countries and bonds of regional governments	31 December 2013	35,378	–	–	<b>35,378</b>
Corporate bonds	31 December 2013	91,681	–	–	<b>91,681</b>
Quoted equity instruments	31 December 2013	2,817	–	–	<b>2,817</b>
Investment property	31 December 2013	–	–	53,480	<b>53,480</b>
Property and equipment	31 December 2013	–	–	50,000	<b>50,000</b>
<b>Assets for which fair values are disclosed</b>					
Cash and cash equivalents	31 December 2013	–	–	20,045	<b>20,045</b>
Deposits with banks and other financial institutions	31 December 2013	–	–	41,490	<b>41,490</b>
Held-to-maturity investment securities	31 December 2013	5,928	–	–	<b>5,928</b>
Long-term loans to banks	31 December 2013	–	–	58,795	<b>58,795</b>
Loans to customers	31 December 2013	–	–	37,625	<b>37,625</b>
<b>Liabilities for which fair values are disclosed</b>					
Due to banks and other financial institutions	31 December 2013	–	–	49,586	<b>49,586</b>
Current customer accounts	31 December 2013	–	–	3,313	<b>3,313</b>

## 28. 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.

	<i>Carrying amount 2014</i>	<i>Fair value 2014</i>	<i>Unrecognized gain/(loss) 2014</i>	<i>Carrying amount 2013</i>	<i>Fair value 2013</i>	<i>Unrecognized gain/(loss) 2013</i>
<b>Financial assets</b>						
Cash and cash equivalents	65,918	65,918	–	20,045	20,045	–
Deposits with banks and other financial institutions	34,371	34,371	–	41,490	41,490	–
Held-to-maturity investment securities	123,634	99,872	(23,762)	5,910	5,928	18
Long-term loans to banks	132,032	126,485	(5,547)	58,795	58,795	–
Loans to customers	108,276	108,276	–	37,625	37,625	–
<b>Financial liabilities</b>						
Due to banks and other financial institutions	58,669	58,669	–	49,586	49,586	–
Current customer accounts	4,788	4,788	–	3,313	3,313	–
Long-term loans of banks	20,540	20,540	–			
Debt securities issued	112,759	106,351	6,408			–
<b>Total unrecognized change in fair value</b>			<b>(22,901)</b>			<b>18</b>

### Fair value measurements

The Group determines the policies and procedures for both recurring fair value measurement, such as unquoted derivatives, investment property, land and buildings, and for non-recurring measurement, such as inventories.

External valuers are involved for valuation of significant assets, such as buildings and property. Involvement of external valuers is decided upon by the Group's Finance Department. Unquoted derivatives are measured made by the Group's Finance Department.

Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

In the course of audit procedures, the Group'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 consolidated financial statements.

#### *Assets for which fair value approximates carrying amount*

For financial assets and financial liabilities that are liquid or having 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 2014 and 31 December 2013 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 fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

## 28. 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 offered for similar financial instruments.

The estimated fair value of fixed interest bearing 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 2014 and 31 December 2013 the fair value of long-term loans to banks and loans to customers 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 2014), the fair values of investment property were based on the results of valuation performed by the accredited independent appraiser, according to 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 by using market comparable method. This means that valuations performed by the valuer are based on market transaction prices, significantly adjusted for difference in the nature, location or condition of the specific property. As at the date of revaluation, 31 December 2014, the properties' fair values are based on valuations performed by an accredited independent valuer, according to the prices of market transactions using the market, cost and income approaches to fair value measurement.

#### *Significant unobservable inputs and sensitivity of level 3 financial instruments measured at fair value to changes to key assumptions*

As at 31 December 2014 (the valuation date), the significant unobservable inputs in determining the fair value of real estate properties included the average asking prices for sale of similar properties ranging from EUR 3,555 per sq. m (range minimum) to EUR 4,976 per sq. m (range maximum), and lease rates ranging from EUR 512 per sq. m. a year (minimum) to EUR 584 per sq. m. a year (maximum).

## 29. Segment information

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

Credit investment activity	Credit investment banking services include long-term corporate and interbank financing;
Treasury	Operations in financial markets, transactions with securities, derivative financial instruments, foreign currency and liquidity management;
Other operations	Operational leasing services, the Bank's Legal Department and subsidiary activities on credit portfolio rehabilitation (in 2013), other operations.

## 29. 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, profit, assets and liabilities of the Group's operating segments:

<i>2014</i>	<i>Credit investment activity</i>	<i>Treasury</i>	<i>Other operations</i>	<i>Total</i>
<b>Income</b>				
<b>External customers</b>				
Interest income	8,725	7,966	108	<b>16,799</b>
Net gains from trading in foreign currencies	–	3,426	–	<b>3,426</b>
Net gains from available-for-sale investment securities	–	5,165	–	<b>5,165</b>
Income from lease of investment property	–	–	8,116	<b>8,116</b>
Recovery of provision	–	–	17	<b>17</b>
Net gains from revaluation of investment property	–	–	257	<b>257</b>
Revenues from sales of inventory	–	–	3,569	<b>3,569</b>
Other segment income	42	–	280	<b>322</b>
<b>Total income</b>	<b>8,767</b>	<b>16,557</b>	<b>12,347</b>	<b>37,671</b>
Interest expenses	(1,622)	(3,155)	–	<b>(4,777)</b>
Allowance for loans impairment	(3,589)	–	–	<b>(3,589)</b>
Cost of inventories sold	–	–	(4,305)	<b>(4,305)</b>
Other segment expenses	(47)	(640)	(5,120)	<b>(5,807)</b>
<b>Segment performance results</b>	<b>3,509</b>	<b>12,762</b>	<b>2,922</b>	<b>19,193</b>
Other unallocated income				<b>1,976</b>
Other unallocated expense				<b>(16,931)</b>
<b>Profit for the year</b>				<b>4,238</b>
Segment assets	240,308	262,399	108,825	<b>611,532</b>
Segment liabilities	56,569	161,892	3,656	<b>222,117</b>
<b>Other segment information</b>				
Capital expenditures	–	–	303	<b>303</b>
<i>2013</i>	<i>Credit investment activity</i>	<i>Treasury</i>	<i>Other operations</i>	<i>Total</i>
<b>Income</b>				
<b>External customers</b>				
Interest income	6,503	6,811	39	<b>13,353</b>
Net gains from trading in foreign currencies	–	56	–	<b>56</b>
Net gains from available-for-sale investment securities	–	5,659	–	<b>5,659</b>
Income from lease of investment property	–	–	7,959	<b>7,959</b>
Net losses from impairment of assets held for sale	–	–	(3,588)	<b>(3,588)</b>
Revenues from sales of inventory	–	–	3,727	<b>3,727</b>
Other segment income	–	362	7,672	<b>8,034</b>
<b>Total income</b>	<b>6,503</b>	<b>12,888</b>	<b>15,809</b>	<b>35,200</b>
Interest expenses	–	(432)	–	<b>(432)</b>
Cost of inventories sold	–	–	(3,346)	<b>(3,346)</b>
Allowance for loans impairment	(10,105)	–	–	<b>(10,105)</b>
<b>Segment performance results</b>	<b>(3,602)</b>	<b>12,456</b>	<b>12,463</b>	<b>21,317</b>
Other unallocated income				<b>3,205</b>
Other unallocated expense				<b>(21,894)</b>
<b>Profit for the year</b>				<b>2,628</b>
Segment assets	101,539	189,217	120,356	<b>411,112</b>
Segment liabilities	5,119	44,467	9,154	<b>58,740</b>
<b>Other segment information</b>				
Capital expenditures	–	–	115	<b>115</b>

In 2014 and 2013 the Group had one counterparty with lease operations revenue exceeding 10% of total Group's revenue (2014: EUR 5,718 thousand; 2013: EUR 5,473 thousand).

## 29. Segment information (continued)

### Geographical information

Allocation of the Group's revenue from transactions with external customers and non-current assets based on the location of these customers and assets as at 31 December 2014 and 31 December 2013 and for the years then ended is presented in the tables below:

	2014				2013			
	<i>Russia</i>	<i>Other member countries</i>	<i>Other countries</i>	<i>Total</i>	<i>Russia</i>	<i>Other member countries</i>	<i>Other countries</i>	<i>Total</i>
Interest income from external customers	7,987	8,096	716	<b>16,799</b>	5,417	7,094	842	<b>13,353</b>
Income from lease of investment property	8,116	–	–	<b>8,116</b>	7,959	–	–	<b>7,959</b>
Revenues from sales of inventory	3,569	–	–	<b>3,569</b>	3,727	–	–	<b>3,727</b>
Non-current assets	106,086	–	–	<b>106,086</b>	103,480	–	–	<b>103,480</b>

Non-current assets include property and equipment and investment property.

*(intentionally blank)*

## 29. Segment information (continued)

### Geographical information (continued)

The geographical concentration of the Group's financial assets and liabilities based on the location of the Group's counterparties as at 31 December 2014 and 31 December 2013 is presented below:

	<i>2014</i>									
	<i>Russian Federation</i>	<i>Republic of Bulgaria</i>	<i>Romania</i>	<i>Slovak Republic</i>	<i>Republic of Cuba</i>	<i>Mongolia</i>	<i>Socialist Republic of Vietnam</i>	<i>Czech Republic</i>	<i>Other countries</i>	<i>Total</i>
<b>Assets</b>										
Cash and cash equivalents	23,698	–	–	8,241	–	–	–	16,464	17,515	<b>65,918</b>
Deposits with banks and other financial institutions	432	–	–	–	–	30,460	–	–	3,479	<b>34,371</b>
Financial instruments at fair value through profit or loss	311	–	–	–	–	–	–	–	–	<b>311</b>
Investment securities:										
- available-for-sale	10,381	14,642	2,584	1,177	–	1,948	1,702	3,567	2,875	<b>38,876</b>
- held-to-maturity	106,097	–	–	–	–	–	–	–	17,537	<b>123,634</b>
Long-term loans to banks less allowances for impairment.	89,874	–	–	–	–	26,986	15,172	–	–	<b>132,032</b>
Loans to customers less allowances for impairment	2,646	31,094	5,958	44,756	–	23,822	–	–	–	<b>108,276</b>
<b>Assets</b>	<b>233,439</b>	<b>45,736</b>	<b>8,542</b>	<b>54,174</b>	<b>–</b>	<b>83,216</b>	<b>16,874</b>	<b>20,031</b>	<b>41,406</b>	<b>503,418</b>
<b>Liabilities</b>										
Due to banks and other financial institutions	–	29,837	–	–	–	–	–	–	28,832	<b>58,669</b>
Financial instruments at fair value through profit or loss	21,143	–	–	–	–	–	–	–	562	<b>21,705</b>
Long-term loans of banks	20,540	–	–	–	–	–	–	–	–	<b>20,540</b>
Debt securities issued	82,679	–	–	30,080	–	–	–	–	–	<b>112,759</b>
<b>Liabilities</b>	<b>124,362</b>	<b>29,837</b>	<b>–</b>	<b>30,080</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>29,394</b>	<b>213,673</b>

## 29. Segment information (continued)

### Geographical information (continued)

	<i>2013</i>									
	<i>Russian Federation</i>	<i>Republic of Bulgaria</i>	<i>Romania</i>	<i>Slovak Republic</i>	<i>Republic of Cuba</i>	<i>Mongolia</i>	<i>Socialist Republic of Vietnam</i>	<i>Czech Republic</i>	<i>Other countries</i>	<i>Total</i>
<b>Assets</b>										
Cash and cash equivalents	5,440	–	–	6,500	–	5,119	–	–	2,986	<b>20,045</b>
Deposits with banks and other financial institutions	25,475	–	–	–	–	16,015	–	–	–	<b>41,490</b>
Financial instruments at fair value through profit or loss	–	–	–	–	–	–	–	–	151	<b>151</b>
Investment securities:										
- available-for-sale	61,673	7,712	12,324	–	–	1,679	–	–	46,488	<b>129,876</b>
- held-to-maturity	–	5,910	–	–	–	–	–	–	–	<b>5,910</b>
Long-term loans to banks less allowances for impairment.	20,058	–	–	–	–	23,522	15,215	–	–	<b>58,795</b>
Loans to customers less allowances for impairment	–	5,775	–	7,915	–	23,935	–	–	–	<b>37,625</b>
<b>Assets</b>	<b>112,646</b>	<b>19,397</b>	<b>12,324</b>	<b>14,415</b>	<b>–</b>	<b>70,270</b>	<b>15,215</b>	<b>–</b>	<b>49,625</b>	<b>293,892</b>
<b>Liabilities</b>										
Due to banks and other financial institutions	35,021	9,446	–	–	–	5,119	–	–	–	<b>49,586</b>
<b>Liabilities</b>	<b>35,021</b>	<b>9,446</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>5,119</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>49,586</b>

Other countries include members of the Organization for Economic Development (OECD).

### 30. Offsetting of financial instruments

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:

<i>2014</i>	<i>Gross amount of recognized financial assets</i>	<i>Gross amount of recognized financial liabilities set off in the statement of financial position</i>	<i>Net amount of financial assets presented in the statement of financial position</i>	<i>Related amounts not set off in the statement of financial position</i>		<i>Net amount</i>
				<i>Financial instruments</i>	<i>Financial liability</i>	
<b>Financial assets</b>						
Financial assets pledged under repurchase agreements	56,537	–	56,537	–	(41,320)	<b>15,217</b>
<b>Total</b>	<b>56,537</b>	<b>–</b>	<b>56,537</b>	<b>–</b>	<b>(41,320)</b>	<b>15,217</b>
<b>Financial liabilities</b>						
Repurchase agreements with banks	41,320	–	41,320	–	(41,320)	–
<b>Total</b>	<b>41,320</b>	<b>–</b>	<b>41,320</b>	<b>–</b>	<b>(41,320)</b>	<b>–</b>

The table below shows financial assets offset against financial liabilities in the consolidated statement of financial position, as at 31 December 2013 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:

<i>2013</i>	<i>Gross amount of recognized financial assets</i>	<i>Gross amount of recognized financial liabilities set off in the statement of financial position</i>	<i>Net amount of financial assets presented in the statement of financial position</i>	<i>Related amounts not set off in the statement of financial position</i>		<i>Net amount</i>
				<i>Cash collateral received</i>		
<b>Financial assets</b>						
Cash and cash equivalents	20,045	–	20,045	(5,119)		<b>14,926</b>
<b>Total</b>	<b>20,045</b>	<b>–</b>	<b>20,045</b>	<b>(5,119)</b>		<b>14,926</b>
<b>Financial liabilities</b>						
Due to banks and other financial institutions	49,586	–	49,586	(5,119)		<b>44,467</b>
<b>Total</b>	<b>49,586</b>	<b>–</b>	<b>49,586</b>	<b>(5,119)</b>		<b>44,467</b>

### 31. 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.



### 31. Related party disclosures (continued)

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 expense and income for 2014 and 2013 are as follows:

	<i>Related party</i>	<i>2014</i>		<i>2013</i>	
		<i>Carrying amount</i>	<i>Average interest rate, %</i>	<i>Carrying amount</i>	<i>Average interest rate, %</i>
<b>Balance sheet</b>					
Current customer accounts	Key management personnel	369	–	120	1.5
				<i>2014</i>	<i>2013</i>
			<i>Related party</i>	<i>Income/ (expense)</i>	<i>Income/ (expense)</i>
<b>Income statement</b>					
Interest expense on current customer accounts	Key management personnel			(42)	(14)
Employee benefits	Key management personnel			(1,451)	(1,134)
Compensation for travel expenses and medical insurance	Key management personnel			(71)	(84)
				<u>(1,564)</u>	<u>(1,232)</u>

### 32. Capital adequacy

Capital adequacy ratio is the most important financial indicator characterizing credibility of the 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 Regulations recommends maintaining the ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 31 December 2014, this minimum level was 8% (2013: 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 of 31 December 2014 (2013: 25%).

From 2013 the Group monitors the capital adequacy ratio, computed in accordance with the Basel Capital Accord (commonly known as Basel II) as defined in the International Convergence of Capital Measurement and Capital Standards and Amendment to the Capital Accord to incorporate market risks.

### 32. 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 of 31 December 2014 and 31 December 2013.

	<i>31 December 2014</i>	<i>31 December 2013</i>
<b>Capital</b>		
Tier 1 capital	351,305	317,373
Tier 2 capital	33,871	32,370
<b>Total regulatory capital</b>	<b>385,176</b>	<b>349,743</b>
<b>Risk-weighted assets</b>		
<i>Credit risk</i>	384,656	163,875
<i>Market risk</i>	58,352	117,431
<i>Operational risk</i>	50,141	60,585
<b>Total risk-weighted assets</b>	<b>493,149</b>	<b>341,891</b>
<b>Total capital expressed as a percentage of risk-weighted assets, % ("capital adequacy ratio")</b>	<b>78.11%</b>	<b>102.30%</b>
<b>Total tier 1 capital expressed as a percentage of risk-weighted assets, % ("tier 1 capital ratio")</b>	<b>71.24%</b>	<b>92.83%</b>

*(The end).*

# **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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****As at 31 December 2015***(Thousands of Euros)*

	<i>Note</i>	<i>31 December 2015</i>	<i>31 December 2014</i>
<b>Assets</b>			
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
<b>Total assets</b>		<b>809,403</b>	<b>611,532</b>
<b>Liabilities</b>			
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
<b>Total liabilities</b>		<b>411,700</b>	<b>222,117</b>
<b>Equity</b>			
Subscribed capital	20	1,300,000	1,300,000
Callable capital		(996,947)	(1,027,382)
<b>Paid-in capital</b>		<b>303,053</b>	<b>272,618</b>
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
<b>Total equity</b>		<b>397,703</b>	<b>389,415</b>
<b>Total equity and liabilities</b>		<b>809,403</b>	<b>611,532</b>

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)*

	<i>Note</i>	<b>2015</b>	<b>2014</b>
<b>Financial result from continuing operations</b>			
Interest income	21	27,132	16,799
Interest expenses	21	(17,744)	(4,777)
<b>Net interest income</b>		<b>9,388</b>	<b>12,022</b>
Allowance for impairment of loans to customers	11	(6,166)	(3,572)
<b>Net interest income after allowance for loan impairment</b>		<b>3,222</b>	<b>8,450</b>
Fee and commission income		548	42
Fee and commission expense		(133)	(117)
<b>Net fee and commission income/(expense)</b>		<b>415</b>	<b>(75)</b>
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)
<b>Net non-interest income</b>		<b>16,642</b>	<b>19,243</b>
<b>Operating income</b>		<b>20,279</b>	<b>27,618</b>
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)
<b>Operating expenses</b>		<b>(18,223)</b>	<b>(23,380)</b>
<b>Net income for the year</b>		<b>2,056</b>	<b>4,238</b>

*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)*

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

*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)*

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

*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)*

	<i>Note</i>	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities</b>			
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)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>(951)</b>	<b>1,677</b>
<i>Net (increase)/decrease in operating assets</i>			
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
<i>Net increase/(decrease) in operating liabilities</i>			
Due to banks and other financial institutions		60,572	6,978
Current customer accounts		2,618	1,452
Other liabilities		135	(541)
<b>Net cash flows from operating activities</b>		<b>(80,556)</b>	<b>(115,904)</b>
<b>Cash flows from investing activities</b>			
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)
<b>Net cash flows from investing activities</b>		<b>(60,569)</b>	<b>(14,241)</b>
<b>Cash flows from financing activities</b>			
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
<b>Net cash flows from financing activities</b>		<b>136,434</b>	<b>178,117</b>
Effect of exchange rate changes on cash and cash equivalents		(1,708)	(2,099)
<b>Net increase in cash and cash equivalents</b>		<b>(6,399)</b>	<b>45,873</b>
<b>Cash and cash equivalents, beginning</b>		<b>65,918</b>	<b>20,045</b>
<b>Cash and cash equivalents, ending</b>	5	<b>59,519</b>	<b>65,918</b>

*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 Mashki 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 Bank 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, %):

<i>Member countries</i>	<i>2015</i> %	<i>2014</i> %
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
	<b>100.000</b>	<b>100.000</b>

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 cost 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:

	<u>Years</u>
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:

	<u>2015</u>	<u>2014</u>
<b>Cash on hand</b>	<b>66</b>	<b>392</b>
<b>Nostro accounts with banks and other financial institutions</b>		
<i>Credit rating AAA</i>	–	11
<i>Credit rating from A- to A+</i>	21,106	13,377
<i>Credit rating from BBB- to BBB+</i>	3,059	25
<i>Credit rating from BB- to BB+</i>	350	–
<b>Total Nostro accounts with banks and other financial institutions</b>	<b>24,515</b>	<b>13,413</b>
<b>Short-term deposits with banks:</b>		
Term deposits with banks		
<i>Credit rating from AA- to AA+</i>	–	16,464
<i>Credit rating from A- to A+</i>	–	8,232
<i>Credit rating from BBB- to BBB+</i>	18,304	255
<i>Credit rating from BB- to BB+</i>	16,634	10,005
<i>Credit rating from B- to B+</i>	–	17,157
<b>Total short-term deposits with banks</b>	<b>34,938</b>	<b>52,113</b>
<b>Cash and cash equivalents</b>	<b>59,519</b>	<b>65,918</b>

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

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

Deposits with banks and other financial institutions comprise:

	<u>2015</u>	<u>2014</u>
<b>Term deposits with banks</b>		
<i>Credit rating from A- to A+</i>	15,067	–
<i>Credit rating from BBB- to BBB+</i>	–	3,479
<i>Credit rating from BB- to BB+</i>	6,049	432
<i>Credit rating from B- to B+</i>	79,276	30,460
<b>Deposits with banks and other financial institutions</b>	<b>100,392</b>	<b>34,371</b>
<b>Amounts due from the National Bank of the Republic of Cuba</b>		
	<u>2015</u>	<u>2014</u>
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)
<b>Term deposits with the National Bank of the Republic of Cuba</b>	<b>–</b>	<b>–</b>
<b>Concentration of deposits with banks and other financial institutions</b>		

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.

	<i>31 December 2015</i>				
	<i>Notional amount</i>		<i>Weighted average exchange rate</i>	<i>Fair value</i>	
	<i>Purchase</i>	<i>Sale</i>		<i>Assets</i>	<i>Liabilities</i>
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	–
<b>Financial instruments at fair value through profit or loss</b>				<b>1,844</b>	<b>29,898</b>

	<i>31 December 2014</i>				
	<i>Notional amount</i>		<i>Weighted average exchange rate</i>	<i>Fair value</i>	
	<i>Purchase</i>	<i>Sale</i>		<i>Assets</i>	<i>Liabilities</i>
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
<b>Financial instruments at fair value through profit or loss</b>				<b>311</b>	<b>21,705</b>

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:

	<u>2015</u>	<u>2014</u>
<b><i>Owned by the Group</i></b>		
<b>Quoted debt securities</b>		
Government bonds of member countries and bonds of regional governments:		
<i>Eurobonds issued by governments of member countries</i>	93,027	11,202
<i>Bonds of regional governments</i>	–	3,395
<b>Government bonds of member countries and bonds of regional governments</b>	<u>93,027</u>	<u>14,597</u>
Corporate bonds		
<i>Credit rating from BBB- to BBB+</i>	–	10,373
<b>Corporate bonds</b>	<u>–</u>	<u>10,373</u>
<b>Total quoted debt securities</b>	<u>93,027</u>	<u>24,970</u>
<b>Quoted equity instruments</b>		
<i>No credit rating</i>	4	3
<b>Total quoted equity instruments</b>	<u>4</u>	<u>3</u>
<b>Available-for-sale investment securities</b>	<u>93,031</u>	<u>24,973</u>
<b><i>Pledged under repurchase agreements</i></b>		
<b>Quoted debt securities</b>		
<i>Eurobonds issued by governments of member countries</i>	21,646	13,903
<b>Eurobonds by governments of member countries</b>	<u>21,646</u>	<u>13,903</u>
Corporate bonds		
<i>Credit rating from BBB- to BBB+</i>	1,382	–
<b>Corporate bonds</b>	<u>1,382</u>	<u>–</u>
<b>Total quoted available-for-sale debt securities pledged under repurchase agreements</b>	<u>23,028</u>	<u>13,903</u>

**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:

	<u>2015</u>	<u>2014</u>
<b><i>Owned by the Group</i></b>		
<b>Quoted debt securities</b>		
<i>Eurobonds issued by governments of member countries</i>	1,272	11,951
<b>Government bonds of member countries</b>	<u>1,272</u>	<u>11,951</u>
Corporate bonds		
<i>Credit rating from A- to A+</i>	–	17,536
<i>Credit rating from BBB- to BBB+</i>	17,442	45,683
<i>Credit rating from BB- to BB+</i>	31,320	5,830
<b>Corporate bonds</b>	<u>48,762</u>	<u>69,049</u>
<b>Total quoted held-to-maturity debt securities</b>	<u>50,034</u>	<u>81,000</u>
<b><i>Pledged under repurchase agreements</i></b>		
<b>Quoted debt securities</b>		
<i>Eurobonds issued by governments of member countries</i>	10,489	–
<b>Government bonds of member countries</b>	<u>10,489</u>	<u>–</u>
Corporate bonds		
<i>Corporate bonds with credit rating BBB-</i>	62,705	42,634
<b>Total corporate bonds</b>	<u>62,705</u>	<u>42,634</u>
<b>Held-to-maturity investment securities pledged under repurchase agreements</b>	<u>73,194</u>	<u>42,634</u>

***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:

	<u>2015</u>	<u>2014</u>
Russian Federation	64,223	89,874
Mongolia	43,044	26,986
Socialist Republic of Vietnam	33,330	15,172
<b>Total long-term loans to banks</b>	<u>140,597</u>	<u>132,032</u>

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	
	<i>Long-term loans to banks</i>	<i>Share in the total loans, %</i>	<i>Long-term loans to banks</i>	<i>Share in the total loans, %</i>
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
	<b>140,597</b>	<b>100.0</b>	<b>132,032</b>	<b>100.0</b>

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

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

As at 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	–
<b>Loans to customers</b>	<b>175,497</b>	<b>111,865</b>
Less: allowance for loan impairment	(9,755)	(3,589)
<b>Loans to customers</b>	<b>165,742</b>	<b>108,276</b>

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)
<b>Overdue loans to customers</b>	<b>5,103</b>	<b>4,518</b>

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:

	<i>Slovak Republic</i>	<i>Republic of Bulgaria</i>	<i>Total</i>
<b>At 1 January 2015</b>	<b>3,589</b>	–	<b>3,589</b>
Net (reversal)/charge for the period	(589)	6,755	<b>6,166</b>
<b>At 31 December 2015</b>	<b>3,000</b>	<b>6,755</b>	<b>9,755</b>
<b>Individual impairment</b>	<b>3,000</b>	<b>6,755</b>	<b>9,755</b>
<b>Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance</b>	<b>8,103</b>	<b>6,755</b>	<b>14,858</b>

(Thousands of Euros)

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

	<i>Russian Federation</i>	<i>Republic of Bulgaria</i>	<i>Slovak Republic</i>	<i>Total</i>
<b>At 1 January 2014</b>	–	–	–	–
Net charge/(reversal) for the period	(2)	(15)	3,589	<b>3,572</b>
Recoveries	2	15	–	<b>17</b>
<b>At 31 December 2014</b>	–	–	<b>3,589</b>	<b>3,589</b>
<b>Individual impairment</b>	–	–	<b>3,589</b>	<b>3,589</b>
<b>Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance</b>	–	–	<b>8,107</b>	<b>8,107</b>

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:

	<i>2015</i>		<i>2014</i>	
	<i>Loans net of allowance for impairment</i>	<i>Share in the total loans, %</i>	<i>Loans net of allowance for impairment</i>	<i>Share in the total loans, %</i>
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
<b>Total loans to customers</b>	<b>165,742</b>	<b>100.0</b>	<b>108,276</b>	<b>100.0</b>

**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:

	<i>2015</i>	<i>2014</i>
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
	<b>175,497</b>	<b>111,865</b>
Less: allowance for loan impairment	(9,755)	(3,589)
<b>Total loans to customers</b>	<b>165,742</b>	<b>108,276</b>

(Thousands of Euros)

**12. Investment property**

In 2015 and 2014, the following changes occurred in the cost of property under operating lease:

	<u>2015</u>	<u>2014</u>
<b>At 1 January</b>	<b>52,879</b>	<b>53,480</b>
Inseparable improvements	33	154
Transfers in the property and equipment	(16,593)	(1,012)
Effect of revaluation	(2,500)	257
<b>Carrying amount at 31 December</b>	<b><u>33,819</u></b>	<b><u>52,879</u></b>

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:

	<u>2015</u>	<u>2014</u>
Cost	20,264	29,486
Accumulated depreciation	(8,092)	(11,360)
<b>Net book value</b>	<b><u>12,172</u></b>	<b><u>18,126</u></b>

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:

	<u>Buildings</u>	<u>Equipment</u>	<u>Computers and software</u>	<u>Office furniture</u>	<u>Vehicles</u>	<u>Capital expenditure</u>	<u>Total</u>
<b>Cost or revalued amount</b>							
<b>At 1 January 2015</b>	<b>50,806</b>	<b>7,069</b>	<b>3,255</b>	<b>486</b>	<b>923</b>	<b>766</b>	<b>63,305</b>
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)
<b>At 31 December 2015</b>	<b><u>62,807</u></b>	<b><u>7,073</u></b>	<b><u>3,603</u></b>	<b><u>472</u></b>	<b><u>808</u></b>	<b><u>1,591</u></b>	<b><u>76,354</u></b>
<b>Accumulated depreciation</b>							
<b>At 1 January 2015</b>	<b>(67)</b>	<b>(6,523)</b>	<b>(2,591)</b>	<b>(319)</b>	<b>(598)</b>	<b>-</b>	<b>(10,098)</b>
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
<b>At 31 December 2015</b>	<b><u>-</u></b>	<b><u>(6,547)</u></b>	<b><u>(2,610)</u></b>	<b><u>(327)</u></b>	<b><u>(477)</u></b>	<b><u>-</u></b>	<b><u>(9,961)</u></b>
<b>Net book value</b>							
<b>At 31 December 2014</b>	<b><u>50,739</u></b>	<b><u>635</u></b>	<b><u>664</u></b>	<b><u>167</u></b>	<b><u>325</u></b>	<b><u>766</u></b>	<b><u>53,207</u></b>
<b>At 31 December 2015</b>	<b><u>62,807</u></b>	<b><u>526</u></b>	<b><u>993</u></b>	<b><u>145</u></b>	<b><u>331</u></b>	<b><u>1,591</u></b>	<b><u>66,393</u></b>

*(Thousands of Euros)***13. Property and equipment (continued)**

The movements in property and equipment for the year ended 31 December 2014 were as follows:

	<i>Buildings</i>	<i>Equipment</i>	<i>Computers and software</i>	<i>Office furniture</i>	<i>Vehicles</i>	<i>Capital expenditure</i>	<i>Total</i>
<b>Cost or revalued amount</b>							
<b>At 1 January 2014</b>	<b>49,398</b>	<b>7,329</b>	<b>2,858</b>	<b>497</b>	<b>749</b>	–	<b>60,831</b>
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
<b>At 31 December 2014</b>	<b>50,806</b>	<b>7,069</b>	<b>3,255</b>	<b>486</b>	<b>923</b>	<b>766</b>	<b>63,305</b>
<b>Accumulated depreciation</b>							
<b>At 1 January 2014</b>	<b>(757)</b>	<b>(6,768)</b>	<b>(2,381)</b>	<b>(357)</b>	<b>(568)</b>	–	<b>(10,831)</b>
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
<b>At 31 December 2014</b>	<b>(67)</b>	<b>(6,523)</b>	<b>(2,591)</b>	<b>(319)</b>	<b>(598)</b>	–	<b>(10,098)</b>
<b>Net book value</b>							
<b>At 31 December 2013</b>	<b>48,641</b>	<b>561</b>	<b>477</b>	<b>140</b>	<b>181</b>	–	<b>50,000</b>
<b>At 31 December 2014</b>	<b>50,739</b>	<b>546</b>	<b>664</b>	<b>167</b>	<b>325</b>	<b>766</b>	<b>53,207</b>

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:

	<u>2015</u>	<u>2014</u>
Cost	37,635	28,327
Accumulated depreciation	(15,029)	(10,880)
<b>Net book value</b>	<b>22,606</b>	<b>17,447</b>

*(Thousands of Euros)***14. Other assets and liabilities**

Other assets comprise:

	<u>2015</u>	<u>2014</u>
Other accounts receivable	2,256	2,900
Advance payments and future period expenses	1,144	841
Inventories – real estate objects	43	50
	<u>3,443</u>	<u>3,791</u>
Less: allowance for impairment of accounts receivable	(1,633)	(1,763)
<b>Other assets</b>	<u><u>1,810</u></u>	<u><u>2,028</u></u>

The movements in other impairment allowance are as follows:

	<u>2015</u>	<u>2014</u>
<b>Allowance at 1 January</b>	<b>1,763</b>	<b>411</b>
Net (reversal)/charge for the year	(89)	1,730
Change in allowance resulting from changes in exchange rates	(41)	(378)
<b>Allowance at 31 December</b>	<u><u>1,633</u></u>	<u><u>1,763</u></u>

Other liabilities comprise:

	<u>2015</u>	<u>2014</u>
Other accounts payable	2,971	2,482
Settlements with employees	1,067	931
Deferred income	50	243
<b>Other liabilities</b>	<u><u>4,088</u></u>	<u><u>3,656</u></u>

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

Due to banks and other financial institutions comprise:

	<u>2015</u>	<u>2014</u>
Term deposits of banks and other financial institutions	49,238	19,783
Repurchase agreements	64,756	41,320
<b>Due to banks and other financial institutions</b>	<u><u>113,994</u></u>	<u><u>61,103</u></u>

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:

	<i>31 December 2015</i>	<i>31 December 2014</i>
Russian Federation	22,953	20,540
Republic of Bulgaria	13,740	–
Slovak Republic	7,494	–
<b>Long-term loans of banks</b>	<b>44,187</b>	<b>20,540</b>

**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 signed 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 signed 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:

	<i>Revaluation reserve for available-for-sale investment securities</i>	<i>Revaluation reserve for property and equipment</i>
<b>At 1 January 2014</b>	<b>214</b>	<b>33,375</b>
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
<b>At 31 December 2014</b>	<b>(999)</b>	<b>35,095</b>
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)
<b>At 31 December 2015</b>	<b>(1,664)</b>	<b>31,453</b>

***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.

	<u>2015</u>	<u>2014</u>
Undrawn loan facilities	52,376	69,296
Guarantees issued	4,556	–
Reimbursement obligations	6,796	–
<b>Total off-balance commitments</b>	<b><u>63,728</u></b>	<b><u>69,296</u></b>

**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:

	<u>2015</u>	<u>2014</u>
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
<b>Interest income</b>	<b><u>27,132</u></b>	<b><u>16,799</u></b>
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)
<b>Interest expenses</b>	<b><u>(17,744)</u></b>	<b><u>(4,777)</u></b>
<b>Net interest income</b>	<b><u>9,388</u></b>	<b><u>12,022</u></b>

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:

	<u>2015</u>	<u>2014</u>
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
<b>General and administrative expenses</b>	<b><u>16,908</u></b>	<b><u>16,931</u></b>

**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 (1<sup>st</sup> 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 (2<sup>nd</sup> line of defense): the division responsible for risk management develops risk management tools and methodology, assesses and monitors the risk level, prepares reports on risks, carries out risk aggregation, and calculates the amount of total capital requirements.
- ▶ Internal audit (3<sup>rd</sup> line of defense): independent quality assessment for existing risk management processes, identification of violations, and proposals for the improvement of the risk management system.

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:

<b>2015</b>	<b>Loan amount</b>	<b>Impairment</b>	<b>Loan amount, including impairment</b>	<b>Impairment to loan amount ratio, %</b>
<b>Long-term loans to banks without any signs of impairment identified</b>				
Standard loans				
- Russian Federation	64,223	–	64,223	–
- Mongolia	43,044	–	43,044	–
- Socialist Republic of Vietnam	33,330	–	33,330	–
	<b>140,597</b>	<b>–</b>	<b>140,597</b>	<b>–</b>
<b>Loans to customers without any signs of impairment identified</b>				
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	–
<b>Uncollectible loans</b>				
- Slovak Republic	8,103	(3,000)	5,103	37
- Republic of Bulgaria	6,755	(6,755)	–	100
	<b>175,497</b>	<b>(9,755)</b>	<b>165,742</b>	<b>5.6</b>
<b>Total loans</b>	<b>316,094</b>	<b>(9,755)</b>	<b>306,339</b>	<b>3.1</b>

(Thousands of Euros)

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

<b>2014</b>	<b>Loan amount</b>	<b>Impairment</b>	<b>Loan amount, including impairment</b>	<b>Impairment to loan amount ratio, %</b>
<b>Long-term loans to banks without any signs of impairment identified</b>				
Standard loans				
- Russian Federation	89,874	–	89,874	–
- Mongolia	26,986	–	26,986	–
- Socialist Republic of Vietnam	15,172	–	15,172	–
	<b>132,032</b>	<b>–</b>	<b>132,032</b>	<b>–</b>
<b>Loans to customers without any signs of impairment identified</b>				
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	–
<b>Uncollectible loans</b>				
- Slovak Republic	8,107	(3,589)	4,518	44
	<b>111,865</b>	<b>(3,589)</b>	<b>108,276</b>	<b>3</b>
<b>Total loans</b>	<b>243,897</b>	<b>(3,589)</b>	<b>240,308</b>	<b>–</b>

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.

	<u>2015</u>	<u>2014</u>
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	–
<b>Off-balance credit-related commitments</b>	<b><u>63,728</u></b>	<b><u>69,296</u></b>

(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								
	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>No stated maturity</i>	<i>Past due</i>	<i>Total</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>No stated maturity</i>	<i>Past due</i>	<i>Total</i>
<b>Assets</b>																
Cash and cash equivalents	59,519	–	–	–	–	–	–	<b>59,519</b>	65,918	–	–	–	–	–	–	<b>65,918</b>
Deposits with banks and other financial institutions	15,352	15,627	54,346	15,067	–	–	–	<b>100,392</b>	8,327	20,347	5,697	–	–	–	–	<b>34,371</b>
Financial assets at fair value through profit or loss	69	–	1,775	–	–	–	–	<b>1,844</b>	311	–	–	–	–	–	–	<b>311</b>
Available-for-sale investment securities	93,027	230	65	22,733	11,948	4	–	<b>116,059</b>	42	7,669	750	13,599	16,813	3	–	<b>38,876</b>
Held-to-maturity investment securities	64	972	2,981	76,728	30,535	–	–	<b>123,228</b>	70	942	1,146	39,791	81,685	–	–	<b>123,634</b>
Long-term loans to banks	–	3,160	41,112	76,374	19,951	–	–	<b>140,597</b>	–	1,531	13,139	117,362	–	–	–	<b>132,032</b>
Loans to customers	982	1,872	26,573	85,268	45,944	–	5,103	<b>165,742</b>	–	901	24,168	53,763	24,926	–	4,518	<b>108,276</b>
Other assets	69	81	473	–	–	–	–	<b>623</b>	58	75	994	10	–	–	–	<b>1,137</b>
<b>Total assets</b>	<b>169,082</b>	<b>21,942</b>	<b>127,325</b>	<b>276,170</b>	<b>108,378</b>	<b>4</b>	<b>5,103</b>	<b>708,004</b>	<b>74,726</b>	<b>31,465</b>	<b>45,894</b>	<b>224,525</b>	<b>123,424</b>	<b>3</b>	<b>4,518</b>	<b>504,555</b>
<b>Liabilities</b>																
Due to banks and other financial institutions	(28,421)	–	(20,196)	(64,756)	–	–	–	<b>(113,373)</b>	(45,436)	(13,233)	–	–	–	–	–	<b>(58,669)</b>
Current customer accounts	(7,430)	–	–	–	–	–	–	<b>(7,430)</b>	(4,788)	–	–	–	–	–	–	<b>(4,788)</b>
Financial liabilities at fair value through profit or loss	–	–	(16,191)	(13,707)	–	–	–	<b>(29,898)</b>	–	–	(21,705)	–	–	–	–	<b>(21,705)</b>
Long-term loans of banks	(102)	–	(24,529)	(19,556)	–	–	–	<b>(44,187)</b>	(97)	–	–	(20,443)	–	–	–	<b>(20,540)</b>
Debt securities issued	–	–	(40,111)	(172,613)	–	–	–	<b>(212,724)</b>	–	–	(82,884)	(29,875)	–	–	–	<b>(112,759)</b>
Other liabilities	(475)	(1,103)	(2,460)	–	–	–	–	<b>(4,038)</b>	(1,356)	(49)	(2,251)	–	–	–	–	<b>(3,656)</b>
<b>Total liabilities</b>	<b>(36,428)</b>	<b>(1,103)</b>	<b>(103,487)</b>	<b>(270,632)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(411,650)</b>	<b>(51,677)</b>	<b>(13,282)</b>	<b>(106,840)</b>	<b>(50,318)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(222,117)</b>
<b>Net position</b>	<b>132,653</b>	<b>20,839</b>	<b>23,838</b>	<b>5,538</b>	<b>108,378</b>	<b>4</b>	<b>5,103</b>	<b>296,354</b>	<b>23,049</b>	<b>18,183</b>	<b>(60,946)</b>	<b>174,207</b>	<b>123,424</b>	<b>3</b>	<b>4,518</b>	<b>282,438</b>
<b>Accumulated net position</b>	<b>132,653</b>	<b>153,493</b>	<b>177,331</b>	<b>182,869</b>	<b>291,247</b>	<b>291,251</b>	<b>296,354</b>		<b>23,049</b>	<b>41,232</b>	<b>(19,714)</b>	<b>154,493</b>	<b>277,917</b>	<b>277,920</b>	<b>282,438</b>	

*(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.

<i>As at 31 December 2015</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Total</i>
<b>Financial liabilities</b>					
Due to banks and other financial institutions	–	28,443	20,293	69,386	<b>118,122</b>
Current customer accounts	–	7,430	–	–	<b>7,430</b>
Net settled derivative liabilities	(69)	–	–	–	<b>(69)</b>
Gross settled derivative financial instruments					
- Contractual amounts payable	–	–	118,408	160,641	<b>279,049</b>
- Contractual amounts receivable	–	–	(117,884)	(151,321)	<b>(269,205)</b>
Long-term loans of banks	–	–	23,473	22,303	<b>45,776</b>
Debt securities issued	–	–	50,936	201,220	<b>252,156</b>
Other liabilities	475	1,103	2,460	–	<b>4,038</b>
<b>Total undiscounted financial liabilities</b>	<b>406</b>	<b>36,976</b>	<b>97,686</b>	<b>302,229</b>	<b>437,297</b>
<i>As at 31 December 2014</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Total</i>
<b>Financial liabilities</b>					
Due to banks and other financial institutions	–	58,746	–	–	<b>58,746</b>
Current customer accounts	–	4,788	–	–	<b>4,788</b>
Net settled derivative liabilities	(310)	–	–	–	<b>(310)</b>
Gross settled derivative financial instruments					
- Contractual amounts payable	–	–	132,244	–	<b>132,244</b>
- Contractual amounts receivable	–	–	(113,142)	–	<b>(113,142)</b>
Long-term loans of banks	–	–	284	21,019	<b>21,303</b>
Debt securities issued	–	–	87,926	35,072	<b>122,998</b>
Other liabilities	1,356	518	2,493	–	<b>4,367</b>
<b>Total undiscounted financial liabilities</b>	<b>1,046</b>	<b>63,583</b>	<b>109,563</b>	<b>56,091</b>	<b>230,283</b>

**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:

	<u>2015</u>	<u>2014</u>
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.

*(Thousands of Euros)***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:

	<i>2015</i>					<i>2014</i>				
	<i>EUR</i>	<i>USD</i>	<i>RUB</i>	<i>Other currencies</i>	<i>Total</i>	<i>EUR</i>	<i>USD</i>	<i>RUB</i>	<i>Other currencies</i>	<i>Total</i>
<b>Assets</b>										
Cash and cash equivalents	37,363	20,147	1,907	102	<b>59,519</b>	33,801	31,655	360	102	<b>65,918</b>
Deposits with banks and other financial institutions	99,990	–	402	–	<b>100,392</b>	32,895	1,044	432	–	<b>34,371</b>
Available-for-sale investment securities	89,426	26,633	–	–	<b>116,059</b>	32,355	6,521	–	–	<b>38,876</b>
Held-to-maturity investment securities	55,416	63,636	4,176	–	<b>123,228</b>	55,566	63,561	4,507	–	<b>123,634</b>
Long-term loans to banks	106,063	34,534	–	–	<b>140,597</b>	110,815	21,217	–	–	<b>132,032</b>
Loans to customers	124,751	40,991	–	–	<b>165,742</b>	108,276	–	–	–	<b>108,276</b>
Other assets	12	–	171	440	<b>623</b>	111	2	1,024	–	<b>1,137</b>
	<b>513,021</b>	<b>185,941</b>	<b>6,656</b>	<b>542</b>	<b>706,160</b>	<b>373,819</b>	<b>124,000</b>	<b>6,323</b>	<b>102</b>	<b>504,244</b>
<b>Liabilities</b>										
Due to banks and other financial institutions	(52,785)	(59,706)	(882)	–	<b>(113,373)</b>	(16,804)	(41,181)	(684)	–	<b>(58,669)</b>
Current customer accounts	(7,220)	(210)	–	–	<b>(7,430)</b>	(4,605)	(183)	–	–	<b>(4,788)</b>
Long-term loans of banks	(7,494)	(36,693)	–	–	<b>(44,187)</b>	–	(20,540)	–	–	<b>(20,540)</b>
Debt securities issued	(30,030)	–	(158,099)	(24,595)	<b>(212,724)</b>	(30,079)	–	(82,680)	–	<b>(112,759)</b>
Other liabilities	(3,103)	(51)	(852)	(32)	<b>(4,038)</b>	(2,879)	(74)	(703)	–	<b>(3,656)</b>
	<b>(100,632)</b>	<b>(96,660)</b>	<b>(159,833)</b>	<b>(24,627)</b>	<b>(381,752)</b>	<b>(54,367)</b>	<b>(61,978)</b>	<b>(84,067)</b>	<b>–</b>	<b>(200,412)</b>
<b>Net balance sheet position</b>	<b>412,389</b>	<b>89,281</b>	<b>(153,177)</b>	<b>(24,085)</b>	<b>324,408</b>	<b>319,452</b>	<b>62,022</b>	<b>(77,744)</b>	<b>102</b>	<b>303,832</b>
<b>Derivative financial instruments</b>										
Claims	61,068	–	156,879	24,108	<b>242,055</b>	33,310	–	76,915	–	<b>110,225</b>
Liabilities	(210,884)	(59,225)	–	–	<b>(270,109)</b>	(97,564)	(34,056)	–	–	<b>(131,620)</b>
<b>Net balance sheet position including derivative financial instruments</b>	<b>262,573</b>	<b>30,056</b>	<b>3,702</b>	<b>23</b>	<b>296,354</b>	<b>255,198</b>	<b>27,966</b>	<b>(829)</b>	<b>102</b>	<b>282,437</b>

*(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:

	<i>2015</i>	<i>2014</i>
	<i>The Group's equity</i>	<i>The Group's equity</i>
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.

	<i>Valuation date</i>	<i>Level 1 2015</i>	<i>Level 2 2015</i>	<i>Level 3 2015</i>	<i>Total 2015</i>
<b>Assets measured at fair value</b>					
Derivative financial assets	31 December 2015	–	1,844	–	<b>1,844</b>
Government bonds of member countries and bonds of regional governments	31 December 2015	114,673	–	–	<b>114,673</b>
Corporate bonds	31 December 2015	1,382	–	–	<b>1,382</b>
Quoted equity instruments	31 December 2015	–	4	–	<b>4</b>
Investment property	31 December 2015	–	–	33,819	<b>33,819</b>
Property and equipment - buildings	31 December 2015	–	–	62,807	<b>62,807</b>
<b>Liabilities measured at fair value</b>					
Derivative financial liabilities	31 December 2015	–	29,898	–	<b>29,898</b>
<b>Assets for which fair values are disclosed</b>					
Cash and cash equivalents	31 December 2015	–	–	59,519	<b>59,519</b>
Deposits with banks and other financial institutions	31 December 2015	–	–	100,392	<b>100,392</b>
Held-to-maturity investment securities	31 December 2015	114,876	–	–	<b>114,876</b>
Long-term loans to banks	31 December 2015	–	–	139,891	<b>139,891</b>
Loans to customers	31 December 2015	–	–	165,742	<b>165,742</b>
<b>Liabilities for which fair values are disclosed</b>					
Due to banks and other financial institutions	31 December 2015	–	–	113,373	<b>113,373</b>
Current customer accounts	31 December 2015	–	–	7,430	<b>7,430</b>
Long-term loans of banks	31 December 2015	–	–	44,187	<b>44,187</b>
Debt securities issued	31 December 2015	–	214,734	–	<b>214,734</b>

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:

	<i>Valuation date</i>	<i>Level 1 2014</i>	<i>Level 2 2014</i>	<i>Level 3 2014</i>	<i>Total 2014</i>
<b>Assets measured at fair value</b>					
Derivative financial assets	31 December 2014	–	311	–	<b>311</b>
Government bonds of member countries and bonds of regional governments	31 December 2014	28,500	–	–	<b>28,500</b>
Corporate bonds	31 December 2014	10,373	–	–	<b>10,373</b>
Quoted equity instruments	31 December 2014	–	3	–	<b>3</b>
Investment property	31 December 2014	–	–	52,879	<b>52,879</b>
Property and equipment - buildings	31 December 2014	–	–	50,739	<b>50,739</b>
<b>Liabilities measured at fair value</b>					
Derivative financial liabilities	31 December 2014	–	21,705	–	<b>21,705</b>
<b>Assets for which fair values are disclosed</b>					
Cash and cash equivalents	31 December 2014	–	–	65,918	<b>65,918</b>
Deposits with banks and other financial institutions	31 December 2014	–	–	34,371	<b>34,371</b>
Held-to-maturity investment securities	31 December 2014	99,872	–	–	<b>99,872</b>
Long-term loans to banks	31 December 2014	–	–	126,485	<b>126,485</b>
Loans to customers	31 December 2014	–	–	108,276	<b>108,276</b>
<b>Liabilities for which fair values are disclosed</b>					
Due to banks and other financial institutions	31 December 2014	–	–	58,669	<b>58,669</b>
Current customer accounts	31 December 2014	–	–	4,788	<b>4,788</b>
Long-term loans of banks	31 December 2014	–	–	20,540	<b>20,540</b>
Debt securities issued	31 December 2014	–	106,351	–	<b>106,351</b>

(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.

	<i>Carrying amount 2015</i>	<i>Fair value 2015</i>	<i>Unrecognized gain/(loss) 2015</i>	<i>Carrying amount 2014</i>	<i>Fair value 2014</i>	<i>Unrecognized gain/(loss) 2014</i>
<b>Financial assets</b>						
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	–
<b>Financial liabilities</b>						
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
<b>Total unrecognized change in unrealized fair value</b>			<b>(11,068)</b>			<b>(22,901)</b>

**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.



(Thousands of Euros)

**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:

	<i>At 1 January 2015</i>	<i>Total gain/ (loss) recorded in profit or loss</i>	<i>Total gains/ (losses) recorded in other comprehensive income</i>	<i>Purchases</i>	<i>Transfer in property and equipment</i>	<i>At 31 December 2015</i>
<b>Assets</b>						
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
<b>Total</b>	<b>103,618</b>	<b>(3,435)</b>	<b>(3,642)</b>	<b>85</b>	<b>–</b>	<b>96,626</b>

(Thousands of Euros)

**24. Fair values of financial instruments (continued)****Movements in level 3 assets and liabilities at fair value (continued)**

	<i>At 1 January 2014</i>	<i>Total gain/ (loss) recorded in profit or loss</i>	<i>Total gains/ (losses) recorded in other comprehensive income</i>	<i>Purchases</i>	<i>Transfer in property and equipment</i>	<i>At 31 December 2014</i>
<b>Assets</b>						
Property and equipment – buildings	48,641	(783)	1,720	149	1,012	50,739
Investment property	53,480	257	–	154	(1,012)	52,879
<b>Total</b>	<b>102,121</b>	<b>(526)</b>	<b>1,720</b>	<b>303</b>	<b>–</b>	<b>103,618</b>

**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:

<i>Transferred financial asset</i>	<i>Available-for-sale investment securities</i>		<i>Held-to-maturity investment securities</i>		<i>Total 2015</i>
	<i>Government bonds of member countries</i>	<i>Corporate bonds</i>	<i>Government bonds of member countries</i>	<i>Corporate bonds</i>	
	<i>2015</i>	<i>2015</i>	<i>2015</i>	<i>2015</i>	
Carrying amount of assets	21,646	1,382	10,489	62,705	<b>96,222</b>
Carrying amount of associated liabilities	(16,350)	(930)	(6,998)	(40,478)	<b>(64,756)</b>
<b>Net position</b>	<b>5,296</b>	<b>452</b>	<b>3,491</b>	<b>22,227</b>	<b>31,466</b>

<i>Transferred financial asset</i>	<i>Available-for-sale investment securities</i>		<i>Held-to-maturity investment securities</i>		<i>Total 2014</i>
	<i>Government bonds of member countries</i>	<i>Corporate bonds</i>	<i>Government bonds of member countries</i>	<i>Corporate bonds</i>	
	<i>2014</i>	<i>2014</i>	<i>2014</i>	<i>2014</i>	
Carrying amount of assets	13,903	–	–	42,634	<b>56,537</b>
Carrying amount of associated liabilities	(12,488)	–	–	(28,832)	<b>(41,320)</b>
<b>Net position</b>	<b>1,415</b>	<b>–</b>	<b>–</b>	<b>13,802</b>	<b>15,217</b>

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:

<b>2015</b>	<b><i>Credit investment activity</i></b>	<b><i>Treasury</i></b>	<b><i>Other operations</i></b>	<b><i>Total</i></b>
<b>Income</b>				
<b><i>External customers</i></b>				
Interest income	15,080	11,904	148	<b>27,132</b>
Net gains from available-for-sale investment securities	–	3,204	–	<b>3,204</b>
Net gains from held-to-maturity investment securities	–	45	–	<b>45</b>
Income from lease of investment property	–	–	5,214	<b>5,214</b>
Recovery of provision	–	–	89	<b>89</b>
Other segment income	460	–	79	<b>539</b>
<b>Total income</b>	<b>15,540</b>	<b>15,153</b>	<b>5,530</b>	<b>36,223</b>
Interest expenses	(7,260)	(10,484)	–	<b>(17,744)</b>
Net losses from trading in foreign currencies	–	(5,302)	(25)	<b>(5,327)</b>
Allowance for impairment of loans	(6,166)	–	–	<b>(6,166)</b>
Net gains from revaluation of investment property	–	–	(2,500)	<b>(2,500)</b>
Other segment expenses	–	(114)	(1,344)	<b>(1,458)</b>
<b>Segment results</b>	<b>2,114</b>	<b>(747)</b>	<b>1,661</b>	<b>3,028</b>
Other unallocated income				<b>15,936</b>
Other unallocated expenses				<b>(16,908)</b>
<b>Profit for the year</b>				<b>2,056</b>
Segment assets	306,339	400,201	102,863	<b>809,403</b>
Segment liabilities	116,138	291,474	4,088	<b>411,700</b>
<b>Other segment information</b>				
Capital expenditures	–	–	85	<b>85</b>

*(intentionally blank)*

(Thousands of Euros)

**26. Segment information (continued)**

<i>2014</i>	<i>Credit investment activity</i>	<i>Treasury</i>	<i>Other operations</i>	<i>Total</i>
<b>Income</b>				
<i>External customers</i>				
Interest income	8,725	7,966	108	<b>16,799</b>
Net gains from trading in foreign currencies	–	3,426	–	<b>3,426</b>
Net gains from available-for-sale investment securities	–	5,165	–	<b>5,165</b>
Income from lease of investment property	–	–	8,116	<b>8,116</b>
Recovery of provision	–	–	17	<b>17</b>
Net gains from revaluation of investment property	–	–	257	<b>257</b>
Revenue from sales of inventories	–	–	3,569	<b>3,569</b>
Other segment income	42	–	280	<b>322</b>
<b>Total income</b>	<b>8,767</b>	<b>16,557</b>	<b>12,347</b>	<b>37,671</b>
Interest expenses	(1,622)	(3,155)	–	<b>(4,777)</b>
Allowance for impairment of loans	(3,589)	–	–	<b>(3,589)</b>
Losses from impairment of investments in subsidiary	–	–	(4,305)	<b>(4,305)</b>
Other segment expenses	(47)	(640)	(5,120)	<b>(5,807)</b>
<b>Segment results</b>	<b>3,509</b>	<b>12,762</b>	<b>2,922</b>	<b>19,193</b>
Other unallocated income				<b>1,976</b>
Other unallocated expenses				<b>(16,931)</b>
<b>Profit for the year</b>				<b>4,238</b>
Segment assets	240,308	262,399	108,825	<b>611,532</b>
Segment liabilities	56,569	161,892	3,656	<b>222,117</b>
<b>Other segment information</b>				
Capital expenditures	–	–	303	<b>303</b>

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:

	<i>2015</i>				<i>2014</i>			
	<i>Russia</i>	<i>Other member countries</i>	<i>Other countries</i>	<i>Total</i>	<i>Russia</i>	<i>Other member countries</i>	<i>Other countries</i>	<i>Total</i>
Interest income	12,147	11,721	3,264	<b>27,132</b>	7,987	8,096	716	<b>16,799</b>
Income from lease of investment property	5,214	–	–	<b>5,214</b>	8,116	–	–	<b>8,116</b>
Revenue from sales of inventories					3,569	–	–	<b>3,569</b>
Non-current assets	100,212	–	–	<b>100,212</b>	106,086	–	–	<b>106,086</b>

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:

	<i>2015</i>									
	<i>Russian Federation</i>	<i>Republic of Bulgaria</i>	<i>Romania</i>	<i>Slovak Republic</i>	<i>Hungary</i>	<i>Mongolia</i>	<i>Socialist Republic of Vietnam</i>	<i>Czech Republic</i>	<i>Other countries</i>	<i>Total</i>
<b>Assets</b>										
Cash and cash equivalents	2,026	219	17	15	–	–	–	–	57,242	<b>59,519</b>
Deposits with banks and other financial institutions	6,049	–	–	–	–	30,539	–	–	63,804	<b>100,392</b>
Financial instruments at fair value through profit or loss	669	–	–	–	–	–	–	–	1,175	<b>1,844</b>
Investment securities:										
- available-for-sale	–	26,889	31,150	13,208	12,056	13,746	11,506	6,118	1,386	<b>116,059</b>
- held-to-maturity	105,785	–	–	–	–	–	–	–	17,443	<b>123,228</b>
Long-term loans to banks less allowances for impairment	64,223	–	–	–	–	43,044	33,330	–	–	<b>140,597</b>
Loans to customers less allowances for impairment	28,160	51,162	25,844	20,437	–	21,890	–	–	18,249	<b>165,742</b>
<b>Assets</b>	<b>206,912</b>	<b>78,270</b>	<b>57,011</b>	<b>33,660</b>	<b>12,056</b>	<b>109,219</b>	<b>44,836</b>	<b>6,118</b>	<b>159,299</b>	<b>707,381</b>
<b>Liabilities</b>										
Due to banks and other financial institutions	992	–	–	7,508	–	–	–	20,086	84,787	<b>113,373</b>
Financial instruments at fair value through profit or loss	18,723	–	864	–	–	–	–	–	10,311	<b>29,898</b>
Long-term loans of banks	22,953	13,740	–	7,494	–	–	–	–	–	<b>44,187</b>
Long-term securities issued	158,067	–	24,557	30,100	–	–	–	–	–	<b>212,724</b>
<b>Liabilities</b>	<b>200,735</b>	<b>13,740</b>	<b>25,421</b>	<b>45,102</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>20,086</b>	<b>95,098</b>	<b>400,182</b>

(Thousands of Euros)

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

	<i>2014</i>									
	<i>Russian Federation</i>	<i>Republic of Bulgaria</i>	<i>Romania</i>	<i>Slovak Republic</i>	<i>Republic of Cuba</i>	<i>Mongolia</i>	<i>Socialist Republic of Vietnam</i>	<i>Czech Republic</i>	<i>Other countries</i>	<i>Total</i>
<b>Assets</b>										
Cash and cash equivalents	23,698	–	–	8,241	–	–	–	16,464	17,515	<b>65,918</b>
Deposits with banks and other financial institutions	432	–	–	–	–	30,460	–	–	3,479	<b>34,371</b>
Financial instruments at fair value through profit or loss	311	–	–	–	–	–	–	–	–	<b>311</b>
Investment securities:										
- available-for-sale	10,381	14,642	2,584	1,177	–	1,948	1,702	3,567	2,875	<b>38,876</b>
- held-to-maturity	106,097	–	–	–	–	–	–	–	17,537	<b>123,634</b>
Long-term loans to banks less allowances for impairment	89,874	–	–	–	–	26,986	15,172	–	–	<b>132,032</b>
Loans to customers less allowances for impairment	2,646	31,094	5,958	44,756	–	23,822	–	–	–	<b>108,276</b>
<b>Assets</b>	<b>233,439</b>	<b>45,736</b>	<b>8,542</b>	<b>54,174</b>	<b>–</b>	<b>83,216</b>	<b>16,874</b>	<b>20,031</b>	<b>41,406</b>	<b>503,418</b>
<b>Liabilities</b>										
Due to banks and other financial institutions	–	29,837	–	–	–	–	–	–	28,832	<b>58,669</b>
Financial instruments at fair value through profit or loss	21,143	–	–	–	–	–	–	–	562	<b>21,705</b>
Long-term loans of banks	20,540	–	–	–	–	–	–	–	–	<b>20,540</b>
Long-term securities issued	82,679	–	–	30,080	–	–	–	–	–	<b>112,759</b>
<b>Liabilities</b>	<b>124,362</b>	<b>29,837</b>	<b>–</b>	<b>30,080</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>29,394</b>	<b>213,673</b>

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:

	<i>Gross amount of recognized financial assets</i>	<i>Gross amount of recognized financial liabilities set off in the statement of financial position</i>	<i>Net amount of financial assets presented in the statement of financial position</i>	<i>Related amounts not set off in the statement of financial position</i>		<i>Net amount</i>
				<i>Financial instruments</i>	<i>Cash collateral received</i>	
<b>2015</b>						
<b>Financial assets</b>						
Financial assets pledged under repurchase agreements	96,222	–	96,222	(64,756)	–	<b>31,466</b>
<b>Total</b>	<b>96,222</b>	<b>–</b>	<b>96,222</b>	<b>(64,756)</b>	<b>–</b>	<b>31,466</b>
<b>Financial liabilities</b>						
Repurchase agreements with banks	64,756	–	64,756	(64,756)	–	–
<b>Total</b>	<b>64,756</b>	<b>–</b>	<b>64,756</b>	<b>(64,756)</b>	<b>–</b>	<b>–</b>

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:

	<i>Gross amount of recognized financial assets</i>	<i>Gross amount of recognized financial liabilities set off in the statement of financial position</i>	<i>Net amount of financial assets presented in the statement of financial position</i>	<i>Related amounts not set off in the statement of financial position</i>		<i>Net amount</i>
				<i>Financial instruments</i>	<i>Cash collateral received</i>	
<b>2014</b>						
<b>Financial assets</b>						
Financial assets pledged under repurchase agreements	56,537	–	56,537	(41,320)	–	<b>15,217</b>
<b>Total</b>	<b>56,537</b>	<b>–</b>	<b>56,537</b>	<b>(41,320)</b>	<b>–</b>	<b>15,217</b>
<b>Financial liabilities</b>						
Repurchase agreements with banks	41,320	–	41,320	(41,320)	–	–
<b>Total</b>	<b>41,320</b>	<b>–</b>	<b>41,320</b>	<b>(41,320)</b>	<b>–</b>	<b>–</b>

**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:

	<i>Related party</i>	<i>31 December 2015</i>		<i>31 December 2014</i>	
		<i>Carrying amount</i>	<i>Average interest rate, %</i>	<i>Carrying amount</i>	<i>Average interest rate, %</i>
<b>Consolidated statement of financial position</b>					
Current customer accounts	Key management personnel	493	–	369	–
<b>Consolidated income statement</b>					
	<i>Related party</i>	<i>2015</i>		<i>2014</i>	
		<i>Income/ (expense)</i>		<i>Income/ (expense)</i>	
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)	
		<b>(1,708)</b>		<b>(1,564)</b>	

**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.

	<i>2015</i>	<i>2014</i>
<b>Capital</b>		
Tier 1 capital	365,978	351,305
Tier 2 capital	29,789	33,871
<b>Total regulatory capital</b>	<b>395,767</b>	<b>385,176</b>
<b>Risk-weighted assets</b>		
Credit risk	560,094	384,656
Market risk	70,461	58,352
Operational risk	55,548	50,141
<b>Total risk-weighted assets</b>	<b>686,103</b>	<b>493,149</b>
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*

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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.

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.

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.

### ***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.



Совершенство бизнес,  
улучшаем мир

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.



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****As at 31 December 2016***(Thousands of euros)*

	<i>Note</i>	<i>31 December 2016</i>	<i>31 December 2015</i>
<b>Assets</b>			
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
<b>Total assets</b>		<b>881,443</b>	<b>809,403</b>
<b>Liabilities</b>			
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
<b>Total liabilities</b>		<b>491,225</b>	<b>411,700</b>
<b>Equity</b>			
Subscribed capital	18	1,300,000	1,300,000
Callable capital		(986,947)	(996,947)
<b>Paid-in capital</b>		<b>313,053</b>	<b>303,053</b>
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
<b>Total equity</b>		<b>390,218</b>	<b>397,703</b>
<b>Total equity and liabilities</b>		<b>881,443</b>	<b>809,403</b>

**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.*

	<i>Note</i>	<i>2016</i>	<i>2015</i>
Interest income	21	32,455	27,132
Interest expenses	21	(27,651)	(17,744)
<b>Net interest income</b>		<b>4,804</b>	<b>9,388</b>
Allowance for loan impairment	11	(7,557)	(6,166)
<b>Net interest income after allowance for loan impairment</b>		<b>(2,753)</b>	<b>3,222</b>
Fee and commission income		843	548
Fee and commission expense		(138)	(133)
<b>Net fee and commission income</b>		<b>705</b>	<b>415</b>
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)
<b>Net non-interest income</b>		<b>22,209</b>	<b>16,642</b>
<b>Operating income</b>		<b>20,161</b>	<b>20,279</b>
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)
<b>Operating expenses</b>		<b>(19,359)</b>	<b>(18,223)</b>
<b>Net income for the year</b>		<b>802</b>	<b>2,056</b>

	<i>Note</i>	<i>2016</i>	<i>2015</i>
<b>Net income for the year</b>		<u>802</u>	<u>2,056</u>
<b>Other comprehensive loss</b>			
<i>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:</i>			
Change in unrealized revaluation of available-for-sale investment securities	18	158	(665)
Translation differences		<u>63</u>	<u>104</u>
<b>Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods</b>		<u>221</u>	<u>(561)</u>
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:</i>			
Revaluation of property and equipment	13	<u>(18,508)</u>	<u>(3,642)</u>
<b>Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods</b>		<u>(18,508)</u>	<u>(3,642)</u>
<b>Other comprehensive loss</b>		<u>(18,287)</u>	<u>(4,203)</u>
<b>Total loss for the year</b>		<u>(17,485)</u>	<u>(2,147)</u>

	<i>Subscribed capital</i>	<i>Callable capital</i>	<i>Revaluation reserve for available-for-sale investment securities</i>	<i>Revaluation reserve for property and equipment</i>	<i>Foreign currency translation reserve</i>	<i>Retained earnings</i>	<i>Total equity</i>
<b>At 31 December 2014</b>	<b>1,300,000</b>	<b>(1,027,382)</b>	<b>(999)</b>	<b>35,095</b>	<b>(224)</b>	<b>82,925</b>	<b>389,415</b>
Profit for the year	–	–	–	–	–	2,056	<b>2,056</b>
Other comprehensive (loss)/income for the year	–	–	(665)	(3,642)	104	–	<b>(4,203)</b>
<b>Total comprehensive (loss)/income</b>	<b>–</b>	<b>–</b>	<b>(665)</b>	<b>(3,642)</b>	<b>104</b>	<b>2,056</b>	<b>(2,147)</b>
Contributions to capital (Note 18)	–	30,435	–	–	–	(20,000)	<b>10,435</b>
<b>At 31 December 2015</b>	<b>1,300,000</b>	<b>(996,947)</b>	<b>(1,664)</b>	<b>31,453</b>	<b>(120)</b>	<b>64,981</b>	<b>397,703</b>
Profit for the year	–	–	–	–	–	802	<b>802</b>
Other comprehensive income/(loss) for the year	–	–	158	(18,508)	63	–	<b>(18,287)</b>
<b>Total comprehensive income/(loss)</b>	<b>–</b>	<b>–</b>	<b>158</b>	<b>(18,508)</b>	<b>63</b>	<b>802</b>	<b>(17,485)</b>
Contributions to capital (Note 18)	–	10,000	–	–	–	–	<b>10,000</b>
<b>At 31 December 2016</b>	<b>1,300,000</b>	<b>(986,947)</b>	<b>(1,506)</b>	<b>12,945</b>	<b>(57)</b>	<b>65,783</b>	<b>390,218</b>

	<i>Note</i>	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>			
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)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>17,077</b>	<b>(951)</b>
<i>Net (increase)/decrease in operating assets</i>			
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
<i>Net increase/(decrease) in operating liabilities</i>			
Due to banks and other financial institutions		1,589	60,572
Current customer accounts		1,481	2,618
Other liabilities		68	135
<b>Net cash flows from operating activities</b>		<b>4,075</b>	<b>(80,556)</b>
<b>Cash flows from investing activities</b>			
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)
<b>Net cash flows from investing activities</b>		<b>(10,138)</b>	<b>(60,569)</b>
<b>Cash flows from financing activities</b>			
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
<b>Net cash flows from financing activities</b>		<b>37,595</b>	<b>136,434</b>
Effect of exchange rate changes on cash and cash equivalents		1,980	(1,708)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>33,512</b>	<b>(6,399)</b>
<b>Cash and cash equivalents, beginning</b>		<b>59,519</b>	<b>65,918</b>
<b>Cash and cash equivalents, ending</b>	5	<b>93,031</b>	<b>59,519</b>

## 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 Bank 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, %):

<i>Member countries</i>	<i>2016, %</i>	<i>2015, %</i>
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
	<b>100.000</b>	<b>100.000</b>

### 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.

## 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.



### **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.

### 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.

### 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.

### **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.

### 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.

### **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 cost 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.

### 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.



### 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:

	<u>Years</u>
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:

	<u>Years</u>
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.

### 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.

### **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 consolidated 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.

### 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.

### 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.

#### **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.



## 5. Cash and cash equivalents

Cash and cash equivalents comprise:

	<u>2016</u>	<u>2015</u>
<b>Cash on hand</b>	<b>104</b>	<b>66</b>
<b>Nostro accounts with banks and other financial institutions</b>		
<i>Credit rating from A- to A+</i>	62,548	21,106
<i>Credit rating from BBB- to BBB+</i>	4,526	3,059
<i>Credit rating from BB- to BB+</i>	551	350
<b>Total nostro accounts with banks and other financial institutions</b>	<b>67,625</b>	<b>24,515</b>
<b>Short-term deposits with banks</b>		
Term deposits with banks		
<i>Credit rating from BBB- to BBB+</i>	–	18,304
<i>Credit rating from BB- to BB+</i>	25,302	16,634
<b>Total short-term deposits with banks</b>	<b>25,302</b>	<b>34,938</b>
<b>Cash and cash equivalents</b>	<b>93,031</b>	<b>59,519</b>

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

## 6. Deposits with banks and other financial institutions

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

	<u>2016</u>	<u>2015</u>
<b>Term deposits up to 1 year</b>		
<i>Credit rating from BB- to BB+</i>	–	6,049
<i>Credit rating from B- to B+</i>	37,126	79,276
<b>Total term deposits up to 1 year</b>	<b>37,126</b>	<b>85,325</b>
<b>Term deposits over 1 year</b>		
<i>Credit rating from A- to A+</i>	5,821	15,067
<i>Credit rating from BB- to BB+</i>	2,390	–
<b>Total term deposits over 1 year</b>	<b>8,211</b>	<b>15,067</b>
<b>Total deposits with banks and other financial institutions</b>	<b>45,337</b>	<b>100,392</b>

### Amounts due from the National Bank of the Republic of Cuba

	<u>2016</u>	<u>2015</u>
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)
<b>Term deposits with the National Bank of the Republic of Cuba</b>	<b>–</b>	<b>–</b>

### 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.

## 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.

	<i>31 December 2016</i>				
	<i>Notional amount</i>		<i>Weighted average exchange rate</i>	<i>Fair value</i>	
	<i>Purchase</i>	<i>Sale</i>		<i>Assets</i>	<i>Liabilities</i>
<b>Derivative financial assets and liabilities at fair value through profit or loss</b>					
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
<b>Total derivative financial assets and liabilities at fair value through profit or loss</b>				<b>14,362</b>	<b>10,087</b>
<b>Derivative financial assets and liabilities designated as hedging instruments</b>					
Swaps	RON 298,300 thousand	EUR 67,068 thousand	4.45	–	1,536
<b>Total derivative financial assets and liabilities designated as hedging instruments</b>				<b>–</b>	<b>1,536</b>
<b>Derivative financial instruments</b>				<b>14,362</b>	<b>11,623</b>
	<i>31 December 2015</i>				
	<i>Notional amount</i>		<i>Weighted average exchange rate</i>	<i>Fair value</i>	
	<i>Purchase</i>	<i>Sale</i>		<i>Assets</i>	<i>Liabilities</i>
<b>Derivative financial assets and liabilities at fair value through profit or loss</b>					
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	–
<b>Total derivative financial assets and liabilities at fair value through profit or loss</b>				<b>1,844</b>	<b>29,898</b>
<b>Derivative financial instruments</b>				<b>1,844</b>	<b>29,898</b>

## 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:

	<u>2016</u>	<u>2015</u>
<i>Owned by the Group</i>		
<b>Quoted debt securities</b>		
Government bonds:		
<i>Eurobonds issued by governments of member countries</i>	52,678	93,027
<b>Government bonds</b>	<u>52,678</u>	<u>93,027</u>
Corporate bonds		
<i>Credit rating from A- to A+</i>	21,152	–
<i>Credit rating from BBB- to BBB+</i>	21,861	–
<i>Credit rating from BB- to BB+</i>	57,579	–
<i>Credit rating from B- to B+</i>	17,575	–
<b>Corporate bonds</b>	<u>118,167</u>	<u>–</u>
<b>Total quoted debt securities</b>	<u>170,845</u>	<u>93,027</u>
<b>Quoted equity instruments</b>		
<i>No credit rating</i>	4	4
<b>Total quoted equity instruments</b>	<u>4</u>	<u>4</u>
<b>Available-for-sale investment securities</b>	<u>170,849</u>	<u>93,031</u>
<i>Pledged under repurchase agreements</i>		
<b>Quoted debt securities</b>		
<i>Eurobonds issued by governments of member countries</i>	10,286	21,646
<i>Eurobonds issued by governments of non-member countries</i>	7,597	–
<b>Government bonds</b>	<u>17,883</u>	<u>21,646</u>
Corporate bonds		
<i>Credit rating AAA</i>	22,486	–
<i>Credit rating from AA- to AA+</i>	4,688	–
<i>Credit rating from A- to A+</i>	32,521	–
<i>Credit rating from BBB- to BBB+</i>	4,994	1,382
<i>Credit rating from BB- to BB+</i>	15,886	–
<b>Corporate bonds</b>	<u>80,575</u>	<u>1,382</u>
<b>Total quoted available-for-sale debt securities pledged under repurchase agreements</b>	<u>98,458</u>	<u>23,028</u>

## 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:

	<u>2016</u>	<u>2015</u>
<b>Owned by the Bank</b>		
<b>Quoted debt securities</b>		
<i>Eurobonds issued by governments of member countries</i>	–	1,272
<b>Government bonds of member countries</b>	–	<b>1,272</b>
Corporate bonds		
<i>Credit rating from BBB- to BBB+</i>	–	17,442
<i>Credit rating from BB- to BB+</i>	–	31,320
<b>Corporate bonds</b>	–	<b>48,762</b>
<b>Total quoted held-to-maturity debt securities</b>	–	<b>50,034</b>
<b>Held-to-maturity investment securities pledged under repurchase agreements</b>		
<b>Quoted debt securities</b>		
<i>Eurobonds issued by governments of member countries</i>	–	10,489
<b>Government bonds of member countries</b>	–	<b>10,489</b>
Corporate bonds		
<i>Credit rating from BB- to BB+</i>	–	62,705
<b>Corporate bonds</b>	–	<b>62,705</b>
<b>Total held-to-maturity investment securities pledged under repurchase agreements</b>	–	<b>73,194</b>

**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%.

## 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:

	<u>2016</u>	<u>2015</u>
<b>Trade financing loans:</b>		
Russian Federation	953	–
<b>Trade financing loans</b>	<u>953</u>	<u>–</u>
<b>Long-term loans to banks</b>		
Mongolia	47,970	43,044
Russian Federation	26,425	64,223
Socialist Republic of Vietnam	19,019	33,330
<b>Long-term loans to banks</b>	<u>93,414</u>	<u>140,597</u>
<b>Total loans to banks</b>	<u>94,367</u>	<u>140,597</u>

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:

	<u>2016</u>		<u>2015</u>	
	<i>Loans to banks</i>	<i>Share in the total loans, %</i>	<i>Loans to banks</i>	<i>Share in the total loans, %</i>
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
	<u>94,367</u>	<u>100.0</u>	<u>140,597</u>	<u>100.0</u>

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.

## 11. Loans to customers

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

	<u>2016</u>	<u>2015</u>
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
<b>Gross loans to customers</b>	<b><u>286,348</u></b>	<b><u>175,497</u></b>
Less: allowance for loan impairment	<u>(17,312)</u>	<u>(9,755)</u>
<b>Loans to customers</b>	<b><u><u>269,036</u></u></b>	<b><u><u>165,742</u></u></b>

The information on the overdue loans as at 31 December 2016 and 31 December 2015 is stated below:

	<u>2016</u>	<u>2015</u>
Loans with overdue principal and/or interest	14,769	14,858
Less: allowance for loan impairment	<u>(14,769)</u>	<u>(9,755)</u>
<b>Overdue loans to customers</b>	<b><u><u>–</u></u></b>	<b><u><u>5,103</u></u></b>

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:

	<i>Slovak Republic</i>	<i>Republic of Bulgaria</i>	<i>Romania</i>	<i>Total</i>
<b>At 1 January 2016</b>	<b>3,000</b>	<b>6,755</b>	–	<b>9,755</b>
Net charge for the period	5,103	200	2,254	<b>7,557</b>
<b>At 31 December 2016</b>	<b><u>8,103</u></b>	<b><u>6,955</u></b>	<b><u>2,254</u></b>	<b><u>17,312</u></b>
<b>Individual impairment</b>	<b><u><u>8,103</u></u></b>	<b><u><u>6,666</u></u></b>	<b><u><u>–</u></u></b>	<b><u><u>14,769</u></u></b>
<b>Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance</b>	<b><u><u>8,103</u></u></b>	<b><u><u>6,666</u></u></b>	<b><u><u>–</u></u></b>	<b><u><u>14,769</u></u></b>
		<i>Slovak Republic</i>	<i>Republic of Bulgaria</i>	<i>Total</i>
<b>At 1 January 2015</b>		<b>3,589</b>	–	<b>3,589</b>
Net (reversal)/charge for the period		(589)	6,755	<b>6,166</b>
<b>At 31 December 2015</b>		<b><u>3,000</u></b>	<b><u>6,755</u></b>	<b><u>9,755</u></b>
<b>Individual impairment</b>		<b><u><u>3,000</u></u></b>	<b><u><u>6,755</u></u></b>	<b><u><u>9,755</u></u></b>
<b>Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance</b>		<b><u><u>8,103</u></u></b>	<b><u><u>6,755</u></u></b>	<b><u><u>14,858</u></u></b>

## 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	
	<i>Loans net of allowance for impairment</i>	<i>Share in the total loans, %</i>	<i>Loans net of allowance for impairment</i>	<i>Share in the total loans, %</i>
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
<b>Total loans to customers</b>	<b>269,036</b>	<b>100.0</b>	<b>165,742</b>	<b>100.0</b>

### 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
	<b>286,348</b>	<b>175,497</b>
Less: allowance for loan impairment	(17,312)	(9,755)
<b>Loans to customers</b>	<b>269,036</b>	<b>165,742</b>

## 12. Investment property

In 2016 and 2015, the following changes occurred in the cost of property under operating lease:

	<u>2016</u>	<u>2015</u>
<b>At 1 January</b>	<b>33,819</b>	<b>52,879</b>
Additions	14,324	–
Inseparable improvements	50	33
Transfers in the property and equipment	(24,179)	(16,593)
Effect of revaluation	(2,174)	(2,500)
<b>Carrying amount at 31 December</b>	<b><u>21,840</u></b>	<b><u>33,819</u></b>

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:

	<u>2016</u>	<u>2015</u>
Cost	20,091	20,264
Additions	50	–
Accumulated depreciation	(2,370)	(8,092)
<b>Net book value</b>	<b><u>17,771</u></b>	<b><u>12,172</u></b>

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.



### 13. Property, equipment and intangible assets

The movements in property, equipment and intangible assets for the years 2016 and 2015 were as follows:

	<i>Buildings</i>	<i>Equipment</i>	<i>Computers and software</i>	<i>Office furniture</i>	<i>Vehicles</i>	<i>Intangible assets</i>	<i>Other</i>	<i>Capital expenditure</i>	<i>Total</i>
<b>Cost or revalued amount</b>									
<b>At 1 January 2016</b>	<b>62,807</b>	<b>7,073</b>	<b>3,278</b>	<b>296</b>	<b>808</b>	<b>325</b>	<b>176</b>	<b>1,591</b>	<b>76,354</b>
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)
<b>At 31 December 2016</b>	<b>67,644</b>	<b>7,500</b>	<b>3,361</b>	<b>307</b>	<b>808</b>	<b>2,472</b>	<b>183</b>	<b>427</b>	<b>82,702</b>
<b>Accumulated depreciation</b>									
<b>At 1 January 2016</b>	–	(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
<b>At 31 December 2016</b>	<b>(117)</b>	<b>(6,747)</b>	<b>(2,730)</b>	<b>(236)</b>	<b>(580)</b>	<b>(343)</b>	<b>(105)</b>	<b>–</b>	<b>(10,858)</b>
<b>Net book value</b>									
<b>At 31 December 2015</b>	<b>62,807</b>	<b>526</b>	<b>833</b>	<b>68</b>	<b>331</b>	<b>160</b>	<b>77</b>	<b>1,591</b>	<b>66,393</b>
<b>At 31 December 2016</b>	<b>67,527</b>	<b>753</b>	<b>631</b>	<b>71</b>	<b>228</b>	<b>2,129</b>	<b>78</b>	<b>427</b>	<b>71,844</b>

### 13. Property, equipment and intangible assets (continued)

	<i>Buildings</i>	<i>Equipment</i>	<i>Computers and software</i>	<i>Office furniture</i>	<i>Vehicles</i>	<i>Intangible assets</i>	<i>Other</i>	<i>Capital expenditure</i>	<i>Total</i>
<b>Cost or revalued amount</b>									
<b>At 1 January 2015</b>	<b>50,806</b>	<b>7,069</b>	<b>3,095</b>	<b>298</b>	<b>923</b>	<b>160</b>	<b>188</b>	<b>766</b>	<b>63,305</b>
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)
<b>At 31 December 2015</b>	<b>62,807</b>	<b>7,073</b>	<b>3,278</b>	<b>296</b>	<b>808</b>	<b>325</b>	<b>176</b>	<b>1 591</b>	<b>76,354</b>
<b>Accumulated depreciation</b>									
<b>At 1 January 2015</b>	<b>(67)</b>	<b>(6,523)</b>	<b>(2,537)</b>	<b>(214)</b>	<b>(598)</b>	<b>(53)</b>	<b>(106)</b>	–	<b>(10,098)</b>
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
<b>At 31 December 2015</b>	<b>–</b>	<b>(6,547)</b>	<b>(2,445)</b>	<b>(228)</b>	<b>(477)</b>	<b>(165)</b>	<b>(99)</b>	–	<b>(9,961)</b>
<b>Net book value</b>									
<b>At 31 December 2014</b>	<b>50,739</b>	<b>546</b>	<b>558</b>	<b>84</b>	<b>325</b>	<b>107</b>	<b>82</b>	<b>766</b>	<b>53,207</b>
<b>At 31 December 2015</b>	<b>62,807</b>	<b>526</b>	<b>833</b>	<b>68</b>	<b>331</b>	<b>160</b>	<b>77</b>	<b>1,591</b>	<b>66,393</b>

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).

### 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:

	<u>2016</u>	<u>2015</u>
Cost	52,132	37,583
Additions	223	52
Accumulated depreciation	(20,871)	(15,029)
<b>Net book value</b>	<b><u>31,484</u></b>	<b><u>22,606</u></b>

### 14. Other assets and liabilities

Other assets comprise:

	<u>2016</u>	<u>2015</u>
<b>Financial assets</b>		
Settlements on bank transactions	1,814	1,525
Accounts receivable on business operations	1,394	1,202
Other financial assets	136	–
	<b><u>3,344</u></b>	<b><u>2,727</u></b>
Less: allowance for impairment	(1,924)	(1,633)
<b>Total financial assets less allowance</b>	<b><u>1,420</u></b>	<b><u>094</u></b>
<b>Non-financial assets</b>		
Assets held-for-sale – real estate	89	–
Inventories – real estate	55	43
Other non-financial assets	755	673
<b>Total non-financial assets</b>	<b><u>899</u></b>	<b><u>716</u></b>
<b>Total other assets</b>	<b><u>2,319</u></b>	<b><u>1,810</u></b>

The movements in other impairment allowance are as follows:

	<u>2016</u>	<u>2015</u>
<b>Allowance at 1 January</b>	<b>1,633</b>	<b>1,763</b>
Reversal charge for the year	(67)	(89)
Change in allowance resulting from changes in exchange rates	358	(41)
<b>Allowance at 31 December</b>	<b><u>1,924</u></b>	<b><u>1,633</u></b>

#### 14. Other assets and liabilities (continued)

Other liabilities comprise:

	<u>2016</u>	<u>2015</u>
<b>Financial liabilities</b>		
Other accounts payable on business operations	1,182	1,063
Other accounts payable on bank transactions	662	–
Other financial liabilities	19	–
<b>Total financial liabilities</b>	<u>1,863</u>	<u>1,063</u>
<b>Non-financial liabilities</b>		
Settlements with employees	3,647	2,975
Other non-financial liabilities	72	50
<b>Total non-financial liabilities</b>	<u>3,719</u>	<u>3,025</u>
<b>Total other liabilities</b>	<u>5,582</u>	<u>4,088</u>

#### 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:

	<u>2016</u>	<u>2015</u>
<b>Due to banks up to 1 year</b>		
Term deposits of banks and other financial institutions	52,856	48,617
<b>Total due to banks up to 1 year</b>	<u>52,856</u>	<u>48,617</u>
<b>Due to banks over 1 year</b>		
Repurchase agreements	66,069	64,756
<b>Total due to banks over 1 year</b>	<u>66,069</u>	<u>64,756</u>
<b>Total due to banks</b>	<u>118,925</u>	<u>113,373</u>

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:

	<u>2016</u>	<u>2015</u>
Syndicated loans	59,039	–
Loans of banks	14,310	44,187
<b>Total long-term loans of banks</b>	<u>73,349</u>	<u>44,187</u>

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:

	<i>Interest rate, % p.a.</i>	<i>Maturity</i>	<i>2016</i>	<i>2015</i>
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
<b>Total bonds</b>			<b>272,528</b>	<b>212,724</b>

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 signed 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 signed 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 signed 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).

## 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:

	<i>Revaluation reserve for available-for- sale investment securities</i>	<i>Revaluation reserve for property and equipment</i>
<b>At 1 January 2015</b>	<b>(999)</b>	<b>35,095</b>
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)
<b>At 31 December 2015</b>	<b>(1,664)</b>	<b>31,453</b>
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)
<b>At 31 December 2016</b>	<b>(1,506)</b>	<b>12,945</b>

#### *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.

## 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.

	<u>2016</u>	<u>2015</u>
Undrawn loan facilities	33,103	52,376
Reimbursement obligations	9,898	6,796
Guarantees issued	4,934	4,556
<b>Total off-balance commitments</b>	<b><u>47,935</u></b>	<b><u>63,728</u></b>

## 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:

	<u>2016</u>	<u>2015</u>
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
<b>Interest income</b>	<b><u>32,455</u></b>	<b><u>27,132</u></b>
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)
<b>Interest expenses</b>	<b><u>(27,651)</u></b>	<b><u>(17,744)</u></b>
<b>Net interest income</b>	<b><u>4,804</u></b>	<b><u>9,388</u></b>

In 2016, there was no interest income accrued on impaired loans issued (2015: EUR 185 thousand).

## 22. General and administrative expenses

General and administrative expenses comprise:

	<u>2016</u>	<u>2015</u>
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
<b>General and administrative expenses</b>	<b><u>18,939</u></b>	<b><u>16,908</u></b>

## 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.



## 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.

## 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.

## 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 from 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.

## 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:

<b>2016</b>	<i>Loan amount</i>	<i>Allowance for impairment</i>	<i>Loan amount, including allowance for impairment</i>	<i>Impairment to loan amount ratio, %</i>
<b>Trade financing loans without any signs of impairment identified</b>				
Standard loans				
- <i>Russian Federation</i>	953	–	953	–
<b>Long-term loans to banks without any signs of impairment identified</b>				
Standard loans				
- <i>Mongolia</i>	47,970	–	47,970	–
- <i>Russian Federation</i>	26,425	–	26,425	–
- <i>Socialist Republic of Vietnam</i>	19,019	–	19,019	–
	<b>94,367</b>	<b>–</b>	<b>94,367</b>	<b>–</b>
<b>Loans to customers without any signs of impairment identified</b>				
Standard loans				
- <i>Russian Federation</i>	61,213	–	61,213	–
- <i>Republic of Bulgaria</i>	53,477	–	53,477	–
- <i>Republic of Ecuador</i>	39,570	–	39,570	–
- <i>Republic of Panama</i>	36,276	–	36,276	–
- <i>Romania</i>	25,205	–	25,205	–
- <i>Czech Republic</i>	22,930	–	22,930	–
- <i>USA</i>	6,108	–	6,108	–
- <i>Mongolia</i>	5,683	–	5,683	–
- <i>Slovak Republic</i>	308	–	308	–
Watch loans to customers				
- <i>Romania</i>	15,030	(2,254)	12,776	15.0
Restructured loans				
- <i>Republic of Bulgaria</i>	5,779	(289)	5,490	5.0
<b>Uncollectible loans</b>				
- <i>Slovak Republic</i>	8,103	(8,103)	–	100
- <i>Republic of Bulgaria</i>	6,666	(6,666)	–	100
	<b>286,348</b>	<b>(17,312)</b>	<b>269,036</b>	<b>6.0</b>
<b>Total loans</b>	<b>380,715</b>	<b>(17,312)</b>	<b>363,403</b>	<b>4.5</b>

## 23. Risk management (continued)

### Credit risk (continued)

<i>2015</i>	<i>Loan amount</i>	<i>Allowance for impairment</i>	<i>Loan amount, including allowance for impairment</i>	<i>Impairment to loan amount ratio, %</i>
<b>Long-term loans to banks without any signs of impairment identified</b>				
Standard loans				
- <i>Russian Federation</i>	64,223	–	64,223	–
- <i>Mongolia</i>	43,044	–	43,044	–
- <i>Socialist Republic of Vietnam</i>	33,330	–	33,330	–
	<b>140,597</b>	<b>–</b>	<b>140,597</b>	<b>–</b>
<b>Loans to customers without any signs of impairment identified</b>				
Standard loans				
- <i>Republic of Bulgaria</i>	51,162	–	51,162	–
- <i>Russian Federation</i>	28,160	–	28,160	–
- <i>Romania</i>	25,844	–	25,844	–
- <i>Mongolia</i>	21,890	–	21,890	–
- <i>Republic of Ecuador</i>	18,249	–	18,249	–
- <i>Slovak Republic</i>	15,334	–	15,334	–
<b>Uncollectible loans</b>				
- <i>Slovak Republic</i>	8,103	(3,000)	5,103	37
- <i>Republic of Bulgaria</i>	6,755	(6,755)	–	100
	<b>175,497</b>	<b>(9,755)</b>	<b>165,742</b>	<b>5.6</b>
<b>Total loans</b>	<b>316,094</b>	<b>(9,755)</b>	<b>306,339</b>	<b>3.1</b>

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.

## 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.

	<u>2016</u>	<u>2015</u>
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
<b>Off-balance credit-related commitments</b>	<b><u>47,935</u></b>	<b><u>63,728</u></b>

## 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							
	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Past due</i>	<i>Total</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>No stated maturity</i>	<i>Past due</i>	<i>Total</i>
<b>Assets</b>															
Cash and cash equivalents	93,031	–	–	–	–	–	<b>93,031</b>	59,519	–	–	–	–	–	–	<b>59,519</b>
Deposits with banks and other financial institutions	14,254	–	27,472	3,611	–	–	<b>45,337</b>	15,352	15,627	54,346	15,067	–	–	–	<b>100,392</b>
Derivative financial instruments	–	116	14,246	–	–	–	<b>14,362</b>	69	–	1,775	–	–	–	–	<b>1,844</b>
Available-for-sale investment securities	170,849	379	502	97,577	–	–	<b>269,307</b>	93,027	230	65	22,733	–	4	–	<b>116,059</b>
Held-to-maturity investment securities	–	–	–	–	–	–	–	64	972	2,981	76,728	42,483	–	–	<b>123,228</b>
Loans to banks	–	3,059	16,638	71,051	3,619	–	<b>94,367</b>	–	3,160	41,112	76,374	19,951	–	–	<b>140,597</b>
Loans to customers	2,066	10,139	59,833	133,047	63,951	–	<b>271,290</b>	982	1,872	26,573	85,268	45,944	–	5,103	<b>165,742</b>
Other financial assets	166	123	381	750	–	–	<b>1,420</b>	69	81	944	–	–	–	–	<b>1,094</b>
<b>Total assets</b>	<b>280,366</b>	<b>13,816</b>	<b>119,072</b>	<b>306,036</b>	<b>67,570</b>	<b>–</b>	<b>786,860</b>	<b>169,082</b>	<b>21,942</b>	<b>127,796</b>	<b>276,170</b>	<b>108,378</b>	<b>4</b>	<b>5,103</b>	<b>708,475</b>
<b>Liabilities</b>															
Due to banks and other financial institutions	(48,558)	–	–	(70,367)	–	–	<b>(118,925)</b>	(28,421)	–	(20,196)	(64,756)	–	–	–	<b>(113,373)</b>
Current customer accounts	(9,218)	–	–	–	–	–	<b>(9,218)</b>	(7,430)	–	–	–	–	–	–	<b>(7,430)</b>
Derivative financial instruments	(2,080)	–	(1,671)	(7,872)	–	–	<b>(11,623)</b>	–	–	(16,191)	(13,707)	–	–	–	<b>(29,898)</b>
Long-term loans of banks	–	–	(14,345)	(59,004)	–	–	<b>(73,349)</b>	(102)	–	(24,529)	(19,556)	–	–	–	<b>(44,187)</b>
Debt securities issued	–	–	(152,484)	(120,044)	–	–	<b>(272,528)</b>	–	–	(40,111)	(172,613)	–	–	–	<b>(212,724)</b>
Other financial liabilities	(348)	–	(933)	(582)	–	–	<b>(1,863)</b>	(43)	(988)	(32)	–	–	–	–	<b>(1,063)</b>
<b>Total liabilities</b>	<b>(60,204)</b>	<b>–</b>	<b>(169,433)</b>	<b>(257,869)</b>	<b>–</b>	<b>–</b>	<b>(487,506)</b>	<b>(35,996)</b>	<b>(988)</b>	<b>(101,059)</b>	<b>(270,632)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(408,675)</b>
<b>Net position</b>	<b>220,162</b>	<b>13,816</b>	<b>(50,361)</b>	<b>48,167</b>	<b>67,570</b>	<b>–</b>	<b>299,354</b>	<b>133,086</b>	<b>20,954</b>	<b>26,737</b>	<b>5,538</b>	<b>108,378</b>	<b>4</b>	<b>5,103</b>	<b>299,800</b>
<b>Accumulated net position</b>	<b>220,162</b>	<b>233,978</b>	<b>183,617</b>	<b>231,784</b>	<b>299,354</b>	<b>299,354</b>		<b>133,086</b>	<b>154,040</b>	<b>180,777</b>	<b>186,315</b>	<b>294,693</b>	<b>294,697</b>	<b>298,800</b>	



## 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.

<i>At 31 December 2016</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Total</i>
<b>Financial liabilities</b>					
Due to banks and other financial institutions	48,590	–	–	73,120	<b>121,710</b>
Current customer accounts	–	9,218	–	–	<b>9,218</b>
Net settled derivative liabilities	2,080	–	–	–	<b>2,080</b>
<i>Gross settled derivative financial instruments</i>					
- Contractual amounts payable	–	47,000	147,836	166,726	<b>361,562</b>
- Contractual amounts receivable	–	(47,089)	(173,371)	(173,625)	<b>(394,085)</b>
Long-term loans of banks	–	–	15,078	60,989	<b>76,067</b>
Debt securities issued	–	–	168,367	128,406	<b>296,773</b>
Other liabilities	348	–	933	582	<b>1,863</b>
<b>Total undiscounted financial liabilities</b>	<b>51,018</b>	<b>9,129</b>	<b>158,843</b>	<b>256,198</b>	<b>475,188</b>

<i>At 31 December 2015</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Total</i>
<b>Financial liabilities</b>					
Due to banks and other financial institutions	–	28,443	20,293	69,386	<b>118,122</b>
Current customer accounts	–	7,430	–	–	<b>7,430</b>
Net settled derivative liabilities	(69)	–	–	–	<b>(69)</b>
<i>Gross settled derivative financial instruments</i>					
- Contractual amounts payable	–	–	118,408	160,641	<b>279,049</b>
- Contractual amounts receivable	–	–	(117,884)	(151,321)	<b>(269,205)</b>
Long-term loans of banks	–	–	23,473	22,303	<b>45,776</b>
Debt securities issued	–	–	50,936	201,220	<b>252,156</b>
Other liabilities	43	988	32	–	<b>1,063</b>
<b>Total undiscounted financial liabilities</b>	<b>(26)</b>	<b>36,861</b>	<b>95,258</b>	<b>302,229</b>	<b>434,322</b>

### 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.

## 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:

	<u>2016</u>	<u>2015</u>
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.

## 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
<b>Non-derivative financial</b>										
<b>Assets</b>										
Cash and cash equivalents	66,125	19,969	6,778	159	<b>93,031</b>	37,363	20,147	1,907	102	<b>59,519</b>
Deposits with banks and other financial institutions	40,568	4,769	–	–	<b>45,337</b>	99,990	–	402	–	<b>100,392</b>
Available-for-sale investment securities	208,628	53,070	7,609	–	<b>269,307</b>	89,426	26,633	–	–	<b>116,059</b>
Held-to-maturity investment securities	–	–	–	–	–	55,416	63,636	4,176	–	<b>123,228</b>
Long-term loans to banks	53,574	40,793	–	–	<b>94,367</b>	106,063	34,534	–	–	<b>140,597</b>
Loans to customers	131,906	137,130	–	–	<b>269,036</b>	124,751	40,991	–	–	<b>165,742</b>
Other financial assets	225	14	927	254	<b>1,420</b>	483	–	171	440	<b>1,094</b>
<b>Total non-derivative financial assets</b>	<b>501,026</b>	<b>255,745</b>	<b>15,314</b>	<b>413</b>	<b>772,498</b>	<b>513,492</b>	<b>185,941</b>	<b>6,656</b>	<b>542</b>	<b>706,631</b>
<b>Liabilities</b>										
Due to banks and other financial institutions	(36,981)	(81,944)	–	–	<b>(118,925)</b>	(52,785)	(59,706)	(882)	–	<b>(113,373)</b>
Current customer accounts	(9,089)	(129)	–	–	<b>(9,218)</b>	(7,220)	(210)	–	–	<b>(7,430)</b>
Long-term loans of banks	(59,039)	(14,310)	–	–	<b>(73,349)</b>	(7,494)	(36,693)	–	–	<b>(44,187)</b>
Debt securities issued	(30,046)	–	(151,515)	(90,967)	<b>(272,528)</b>	(30,030)	–	(158,099)	(24,595)	<b>(212,724)</b>
Other financial liabilities	(529)	(49)	(1,106)	(179)	<b>(1,863)</b>	(212)	(1)	(818)	(32)	<b>(1,063)</b>
<b>Total non-derivative financial liabilities</b>	<b>(135,684)</b>	<b>(96,432)</b>	<b>(152,621)</b>	<b>(91,146)</b>	<b>(475,883)</b>	<b>(97,741)</b>	<b>(96,610)</b>	<b>(159,799)</b>	<b>(24,627)</b>	<b>(378,777)</b>
<b>Net balance sheet position (excluding derivative financial instruments)</b>	<b>365,342</b>	<b>159,313</b>	<b>(137,307)</b>	<b>(90,733)</b>	<b>296,615</b>	<b>415,751</b>	<b>89,331</b>	<b>(153,143)</b>	<b>(24,085)</b>	<b>327,854</b>
<b>Derivative financial instruments</b>										
Claims	125,117	–	145,832	90,318	<b>361,267</b>	61,068	–	156,879	24,108	<b>242,055</b>
Liabilities	(224,955)	(124,785)	(8,788)	–	<b>(358,528)</b>	(210,884)	(59,225)	–	–	<b>(270,109)</b>
<b>Net balance sheet position including derivative financial instruments</b>	<b>265,504</b>	<b>34,528</b>	<b>(263)</b>	<b>(415)</b>	<b>299,354</b>	<b>265,935</b>	<b>30,106</b>	<b>3,736</b>	<b>23</b>	<b>299,800</b>

## 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.

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.

	<i>Increase in basis points</i>	<i>Sensitivity of the income statement</i>	<i>Sensitivity of equity</i>
	<i>2016</i>	<i>2016</i>	<i>2016</i>
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	–

	<i>Decrease in basis points</i>	<i>Sensitivity of the income statement</i>	<i>Sensitivity of equity</i>
	<i>2016</i>	<i>2016</i>	<i>2016</i>
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)	–

	<i>Increase in basis points</i>	<i>Sensitivity of the income statement</i>	<i>Sensitivity of equity</i>
	<i>2015</i>	<i>2015</i>	<i>2015</i>
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	–

	<i>Decrease in basis points</i>	<i>Sensitivity of the income statement</i>	<i>Sensitivity of equity</i>
	<i>2015</i>	<i>2015</i>	<i>2015</i>
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.

## **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.

## 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.

	<i>Valuation date</i>	<i>Level 1 2016</i>	<i>Level 2 2016</i>	<i>Level 3 2016</i>	<i>Total 2016</i>
<b>Assets measured at fair value</b>					
Derivative financial assets	31 December 2016	–	14,362	–	<b>14,362</b>
Government bonds of member countries	31 December 2016	70,561	–	–	<b>70,561</b>
Corporate bonds	31 December 2016	194,003	4,739	–	<b>198,742</b>
Quoted equity instruments	31 December 2016	–	4	–	<b>4</b>
Investment property	31 December 2016	–	–	21,840	<b>21,840</b>
Property and equipment – buildings	31 December 2016	–	–	67,527	<b>67,527</b>
<b>Liabilities measured at fair value</b>					
Derivative financial liabilities	31 December 2016	–	11,623	–	<b>11,623</b>
<b>Assets for which fair values are disclosed</b>					
Cash and cash equivalents	31 December 2016	104	92,927	–	<b>93,031</b>
Deposits with banks and other financial institutions	31 December 2016	–	–	45,337	<b>45,337</b>
Loans to banks	31 December 2016	–	–	88,558	<b>88,558</b>
Loans to customers	31 December 2016	–	–	270,243	<b>270,243</b>
<b>Liabilities for which fair values are disclosed</b>					
Due to banks and other financial institutions	31 December 2016	–	–	118,925	<b>118,925</b>
Current customer accounts	31 December 2016	–	–	9,218	<b>9,218</b>
Long-term loans of banks	31 December 2016	–	–	73,349	<b>73,349</b>
Debt securities issued	31 December 2016	–	279,181	–	<b>279,181</b>

*(intentionally blank)*

## 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:

	<i>Valuation date</i>	<i>Level 1 2015</i>	<i>Level 2 2015</i>	<i>Level 3 2015</i>	<i>Total 2015</i>
<b>Assets measured at fair value</b>					
Derivative financial assets	31 December 2015	–	1,844	–	<b>1,844</b>
Government bonds of member countries and bonds of regional governments	31 December 2015	114,673	–	–	<b>114,673</b>
Corporate bonds	31 December 2015	1,382	–	–	<b>1,382</b>
Quoted equity instruments	31 December 2015	–	4	–	<b>4</b>
Investment property	31 December 2015	–	–	33,819	<b>33,819</b>
Property and equipment – buildings	31 December 2015	–	–	62,807	<b>62,807</b>
<b>Liabilities measured at fair value</b>					
Derivative financial liabilities	31 December 2015	–	29,898	–	<b>29,898</b>
<b>Assets for which fair values are disclosed</b>					
Cash and cash equivalents	31 December 2015	66	59,453	–	<b>59,519</b>
Deposits with banks and other financial institutions	31 December 2015	–	–	100,392	<b>100,392</b>
Held-to-maturity investment securities	31 December 2015	114,876	–	–	<b>114,876</b>
Long-term loans to banks	31 December 2015	–	–	139,891	<b>139,891</b>
Loans to customers	31 December 2015	–	–	165,742	<b>165,742</b>
<b>Liabilities for which fair values are disclosed</b>					
Due to banks and other financial institutions	31 December 2015	–	–	113,373	<b>113,373</b>
Current customer accounts	31 December 2015	–	–	7,430	<b>7,430</b>
Long-term loans of banks	31 December 2015	–	–	44,187	<b>44,187</b>
Debt securities issued	31 December 2015	–	214,734	–	<b>214,734</b>

*(intentionally blank)*

## 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.

	<i>Carrying amount 2016</i>	<i>Fair value 2016</i>	<i>Unrecognized gain/(loss) 2016</i>	<i>Carrying amount 2015</i>	<i>Fair value 2015</i>	<i>Unrecognized gain/(loss) 2015</i>
<b>Financial assets</b>						
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	–
<b>Financial liabilities</b>						
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)
<b>Total unrecognized change in unrealized fair value</b>			<b>(11,255)</b>			<b>(11,068)</b>

### 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.



## 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.

## 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:

	<i>At 1 January 2016</i>	<i>Gains/(losses) recorded in profit or loss</i>	<i>Gains/(losses) recorded in comprehensive income</i>	<i>Purchases</i>	<i>Transfer in property and equipment</i>	<i>At 31 December 2016</i>
<b>Assets</b>						
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
<b>Total</b>	<b>96,626</b>	<b>(3,348)</b>	<b>(18,508)</b>	<b>14,597</b>	<b>–</b>	<b>89,367</b>
	<i>At 1 January 2015</i>	<i>Gains/(losses) recorded in profit or loss</i>	<i>Gains/(losses) recorded in comprehensive income</i>	<i>Purchases</i>	<i>Transfer in property and equipment</i>	<i>At 31 December 2015</i>
<b>Assets</b>						
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
<b>Total</b>	<b>103,618</b>	<b>(3,435)</b>	<b>(3,642)</b>	<b>85</b>	<b>–</b>	<b>96,626</b>

## 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:

	<i>Available-for-sale investment securities</i>		<i>Held-to-maturity investment securities</i>		<i>Total</i>
	<i>Government eurobonds</i>	<i>Corporate bonds</i>	<i>Government eurobonds</i>	<i>Corporate bonds</i>	
<i>Transferred financial asset</i>	<i>2016</i>	<i>2016</i>	<i>2016</i>	<i>2016</i>	<i>2016</i>
Carrying amount of assets	17,883	80,575	–	–	98,458
Carrying amount of associated liabilities	(13,485)	(52,584)	–	–	(66,069)
<b>Net position</b>	<b>4,398</b>	<b>27,991</b>	<b>–</b>	<b>–</b>	<b>32,389</b>
	<i>Available-for-sale investment securities</i>		<i>Held-to-maturity investment securities</i>		<i>Total</i>
	<i>Government bonds of member countries</i>	<i>Corporate bonds</i>	<i>Government bonds of member countries</i>	<i>Corporate bonds</i>	
<i>Transferred financial asset</i>	<i>2015</i>	<i>2015</i>	<i>2015</i>	<i>2015</i>	<i>2015</i>
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)
<b>Net position</b>	<b>5,296</b>	<b>452</b>	<b>3,491</b>	<b>22,227</b>	<b>31,466</b>

## 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

*(intentionally blank)*

## 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	<i>Credit investment activity</i>	<i>Treasury</i>	<i>Other operations</i>	<i>Total</i>
<b>Income</b>				
<i>External customers</i>				
Interest income	20,348	12,093	14	<b>32,455</b>
Net gains from trading in foreign currencies and operations with derivatives	–	9,068	–	<b>9,068</b>
Net gains from revaluation of derivative financial instruments	–	36,679	–	<b>36,679</b>
Net gains from available-for-sale investment securities	–	10,515	–	<b>10,515</b>
Net gains from held-to-maturity investment securities	–	616	–	<b>616</b>
Reversal of allowance for loan impairment	–	–	89	<b>89</b>
Income from lease of investment property	–	–	3,442	<b>3,442</b>
Reversal of allowance for impairment of other assets	–	–	67	<b>67</b>
Other segment income	241	–	430	<b>671</b>
<b>Total income</b>	<b>20,589</b>	<b>68,971</b>	<b>4,042</b>	<b>93,602</b>
Interest expenses	(11,250)	(16,401)	–	<b>(27,651)</b>
Net loss from revaluation of derivative financial instruments	–	(4,349)	–	<b>(4,349)</b>
Net losses from revaluation of assets and liabilities in foreign currencies	–	(31,119)	(54)	<b>(31,173)</b>
Net losses from revaluation of hedging instruments	–	(246)	–	<b>(246)</b>
Allowance for impairment of financial assets	(7,646)	–	–	<b>(7,646)</b>
Net losses from revaluation of investment property	–	–	(2,174)	<b>(2,174)</b>
Other segment expenses	(167)	(196)	(259)	<b>(622)</b>
<b>Segment results</b>	<b>1,526</b>	<b>16,660</b>	<b>1,555</b>	<b>19,741</b>
Other unallocated expenses				<b>(18,939)</b>
<b>Profit for the period</b>				<b>802</b>
Development Portfolio	363,403	68,349	–	<b>431,752</b>
Other segment assets	–	353,239	96,425	<b>449,691</b>
<b>Total segment assets</b>	<b>363,403</b>	<b>421,588</b>	<b>96,425</b>	<b>881,443</b>
<b>Total segment liabilities</b>	<b>160,065</b>	<b>325,579</b>	<b>5,581</b>	<b>491,225</b>
<b>Other segment information</b>				
Capital expenditures	–	–	1,065	<b>1,065</b>

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..

## 26. Segment information (continued)

2015	<i>Credit investment activity</i>	<i>Treasury</i>	<i>Other operations</i>	<i>Total</i>
<b>Income</b>				
<i>External customers</i>				
Interest income	15,080	11,904	148	<b>27,132</b>
Net gains from revaluation of assets and liabilities in foreign currencies	–	22,614	369	<b>22,983</b>
Net gains from available-for-sale investment securities	–	3,204	–	<b>3,204</b>
Net gains from held-to-maturity investment securities	–	45	–	<b>45</b>
Income from lease of investment property	–	–	5,214	<b>5,214</b>
Recovery of provision	–	–	89	<b>89</b>
Other segment income	460	–	79	<b>539</b>
<b>Total income</b>	<b>15,540</b>	<b>37,767</b>	<b>5,899</b>	<b>59,206</b>
Interest expenses	(7,260)	(10,484)	–	<b>(17,744)</b>
Net losses from trading in foreign currencies	–	(5,302)	(25)	<b>(5,327)</b>
Net losses from revaluation of derivative financial instruments	–	(6,661)	–	<b>(6,661)</b>
Net loss from trading in foreign currencies and operations with derivatives	–	(5,302)	–	<b>(5,302)</b>
Allowance for loan impairment	(6,166)	–	–	<b>(6,166)</b>
Net losses from revaluation of investment property	–	–	(2,500)	<b>(2,500)</b>
Other segment expenses	–	(114)	(1,755)	<b>(1,869)</b>
<b>Segment results</b>	<b>2,114</b>	<b>15,206</b>	<b>1,644</b>	<b>18,964</b>
Other unallocated expenses				<b>(16,908)</b>
<b>Profit for the year</b>				<b>2,056</b>
Development Portfolio	301,236	–	–	<b>301,236</b>
Other segment assets	5,103	400,201	102,863	<b>508,167</b>
<b>Total segment assets</b>	<b>306,339</b>	<b>400,201</b>	<b>102,863</b>	<b>809,403</b>
<b>Total segment liabilities</b>	<b>116,138</b>	<b>291,474</b>	<b>4,088</b>	<b>411,700</b>
<b>Other segment information</b>				
Capital expenditures	–	–	85	<b>85</b>

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			
	<i>Russia</i>	<i>Other member countries</i>	<i>Other countries</i>	<i>Total</i>	<i>Russia</i>	<i>Other member countries</i>	<i>Other countries</i>	<i>Total</i>
Interest income	7,760	16,095	8,600	<b>32,455</b>	12,147	11,721	3,264	<b>27,132</b>
Income from lease of investment property	3,442	–	–	<b>3,442</b>	5,214	–	–	<b>5,214</b>
Non-current assets	79,245	14,439	–	<b>93,684</b>	100,212	–	–	<b>100,212</b>

Non-current assets include property and equipment and investment property.

## 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:

	<i>2016</i>									
	<i>Russian Federation</i>	<i>Republic of Bulgaria</i>	<i>Romania</i>	<i>Slovak Republic</i>	<i>Hungary</i>	<i>Mongolia</i>	<i>Socialist Republic of Vietnam</i>	<i>Czech Republic</i>	<i>Other countries</i>	<i>Total</i>
<b>Assets</b>										
Cash and cash equivalents	16,398	808	26	38	–	–	–	–	75,761	<b>93,031</b>
Deposits with banks and other financial institutions	7,159	–	–	–	–	–	–	–	38,178	<b>45,337</b>
Derivative financial instruments	2,980	–	–	–	–	–	–	–	11,382	<b>14,362</b>
Available-for-sale investment securities	44,688	49,482	36,713	10,286	3,475	–	–	–	124,663	<b>269,307</b>
Long-term loans to banks and trade financing loans less allowances for impairment	27,378	–	–	–	–	47,970	19,019	–	–	<b>94,367</b>
Loans to customers less allowances for impairment	61,213	58,967	37,981	308	–	5,683	–	22,930	81,954	<b>269,036</b>
Other financial assets	1,407	8	–	1	–	–	–	–	4	<b>1,420</b>
<b>Assets</b>	<b>161,223</b>	<b>109,256</b>	<b>74,720</b>	<b>10,633</b>	<b>3,475</b>	<b>53,653</b>	<b>19,019</b>	<b>22,930</b>	<b>331,942</b>	<b>786,860</b>
<b>Liabilities</b>										
Due to banks and other financial institutions	–	–	–	7,508	–	–	–	–	111,417	<b>118,925</b>
Derivative financial instruments	4,528	–	633	–	–	–	–	–	6,462	<b>11,623</b>
Long-term loans of banks	9,840	21,690	–	–	7,380	–	–	–	34,439	<b>73,349</b>
Long-term securities issued	151,434	–	90,967	30,127	–	–	–	–	–	<b>272,528</b>
Other financial liabilities	1,805	–	–	19	–	–	–	–	39	<b>1,863</b>
<b>Liabilities</b>	<b>167,607</b>	<b>21,690</b>	<b>91,600</b>	<b>37,654</b>	<b>7,380</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>152,357</b>	<b>478,288</b>

26. Segment information (continued)

Geographical information (continued)

	2015									
	<i>Russian Federation</i>	<i>Republic of Bulgaria</i>	<i>Romania</i>	<i>Slovak Republic</i>	<i>Hungary</i>	<i>Mongolia</i>	<i>Socialist Republic of Vietnam</i>	<i>Czech Republic</i>	<i>Other countries</i>	<i>Total</i>
<b>Assets</b>										
Cash and cash equivalents	2,026	219	17	15	–	–	–	–	57,242	<b>59,519</b>
Deposits with banks and other financial institutions	6,049	–	–	–	–	30,539	–	–	63,804	<b>100,392</b>
Derivative financial instruments	669	–	–	–	–	–	–	–	1,175	<b>1,844</b>
Investment securities:										
- available-for-sale	–	26,889	31,150	13,208	12,056	13,746	11,506	6,118	1,386	<b>116,059</b>
- held-to-maturity	105,785	–	–	–	–	–	–	–	17,443	<b>123,228</b>
Long-term loans to banks less allowances for impairment	64,223	–	–	–	–	43,044	33,330	–	–	<b>140,597</b>
Loans to customers less allowances for impairment	28,160	51,162	25,844	20,437	–	21,890	–	–	18,249	<b>165,742</b>
<b>Assets</b>	<b>206,912</b>	<b>78,270</b>	<b>57,011</b>	<b>33,660</b>	<b>12,056</b>	<b>109,219</b>	<b>44,836</b>	<b>6,118</b>	<b>159,299</b>	<b>707,381</b>
<b>Liabilities</b>										
Due to banks and other financial institutions	992	–	–	7,508	–	–	–	20,086	84,787	<b>113,373</b>
Derivative financial instruments	18,723	–	864	–	–	–	–	–	10,311	<b>29,898</b>
Long-term loans of banks	22,953	13,740	–	7,494	–	–	–	–	–	<b>44,187</b>
Long-term securities issued	158,067	–	24,557	30,100	–	–	–	–	–	<b>212,724</b>
<b>Liabilities</b>	<b>200,735</b>	<b>13,740</b>	<b>25,421</b>	<b>45,102</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>20,086</b>	<b>95,098</b>	<b>400,182</b>

Other countries include non-member countries.

## 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:

	<i>Gross amount of recognized financial assets</i>	<i>Gross amount of recognized financial liabilities set off in the statement of financial position</i>	<i>Net amount of financial assets presented in the statement of financial position</i>	<i>Related amounts not set off in the statement of financial position</i>		<i>Net amount</i>
				<i>Financial instruments</i>	<i>Cash collateral received</i>	
<b>2016</b>						
<b>Financial assets</b>						
Financial assets pledged under repurchase agreements	98,458	–	98,458	(66,069)	–	<b>32,389</b>
<b>Total</b>	<b>98,458</b>	<b>–</b>	<b>98,458</b>	<b>(66,069)</b>	<b>–</b>	<b>32,389</b>
<b>Financial liabilities</b>						
Repurchase agreements with banks	66,069	–	66,069	(66,069)	–	–
<b>Total</b>	<b>66,069</b>	<b>–</b>	<b>66,069</b>	<b>(66,069)</b>	<b>–</b>	<b>–</b>

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:

	<i>Gross amount of recognized financial assets</i>	<i>Gross amount of recognized financial liabilities set off in the statement of financial position</i>	<i>Net amount of financial assets presented in the statement of financial position</i>	<i>Related amounts not set off in the statement of financial position</i>		<i>Net amount</i>
				<i>Financial instruments</i>	<i>Cash collateral received</i>	
<b>2015</b>						
<b>Financial assets</b>						
Financial assets pledged under repurchase agreements	96,222	–	96,222	(64,756)	–	<b>31,466</b>
<b>Total</b>	<b>96,222</b>	<b>–</b>	<b>96,222</b>	<b>(64,756)</b>	<b>–</b>	<b>31,466</b>
<b>Financial liabilities</b>						
Repurchase agreements with banks	64,756	–	64,756	(64,756)	–	–
<b>Total</b>	<b>64,756</b>	<b>–</b>	<b>64,756</b>	<b>(64,756)</b>	<b>–</b>	<b>–</b>



## 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:

	<i>Related party</i>	<u>31 December 2016</u> <i>Carrying amount</i>	<u>31 December 2015</u> <i>Carrying amount</i>
<b>Consolidated statement of financial position</b>			
Current customer accounts	Key management personnel	1,783	1,897
Other non-financial liabilities	Key management personnel	416	493
		<u>2016</u>	<u>2015</u>
	<i>Related party</i>	<i>Income/ (expense)</i>	<i>Income/ (expense)</i>
<b>Consolidated income statement</b>			
Interest expenses on current customer accounts	Key management personnel	(61)	(95)
<b>Net interest expenses after allowance for impairment of loans</b>		<u>(61)</u>	<u>(95)</u>
<b>Operating expenses</b>		<u>(61)</u>	<u>(95)</u>
Employee benefits	Key management personnel	(1,365)	(1,524)
Compensation for travel expenses and medical insurance	Key management personnel	(55)	(89)
<b>Operating expenses</b>		<u>(1,420)</u>	<u>(1,613)</u>
<b>Net (loss)/profit for the year</b>		<u><u>(1,481)</u></u>	<u><u>(1,708)</u></u>

## 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%).

## 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.

	<u>2016</u>	<u>2015</u>
<b>Capital</b>		
Tier 1 capital	378,034	365,978
Tier 2 capital	11,439	29,789
<b>Total regulatory capital</b>	<u><b>389,473</b></u>	<u><b>395,767</b></u>
<b>Risk-weighted assets</b>		
Credit risk	482,693	560,094
Market risk	186,588	70,461
Operational risk	57,999	55,548
<b>Total risk-weighted assets</b>	<u><b>727,280</b></u>	<u><b>686,103</b></u>
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)*

# **International Investment Bank**

## **Interim condensed consolidated financial statements**

*Six months ended 30 June 2016*

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## Report on review of interim condensed consolidated financial statements

To the Council of the International Investment Bank

### Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of International Investment Bank (hereinafter, the "Bank") and its subsidiaries (hereinafter, the "Group"), which comprise the interim condensed consolidated statement of financial position as at 30 June 2016 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management of the Group is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements 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 condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

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

Ernst & Young Vnesheaudit LLC

18 August 2016

Moscow, Russia

**INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION****As at 30 June 2016***(Thousands of euros)*

	<i>Note</i>	<i>30 June 2016 (unaudited)</i>	<i>31 December 2015</i>
<b>Assets</b>			
Cash and cash equivalents	5	54,119	59,519
Deposits with banks and other financial institutions	6	69,192	100,392
Financial assets at fair value through profit or loss	7	3,021	1,844
Available-for-sale investment securities	8	140,116	93,031
Available-for-sale investment securities pledged under repurchase agreements	8	23,733	23,028
Held-to-maturity investment securities	9	40,962	50,034
Held-to-maturity investment securities pledged under repurchase agreements	9	72,496	73,194
Long-term loans to banks	10	123,183	140,597
Loans to customers	11	293,197	165,742
Investment property		33,851	33,819
Property and equipment		66,250	66,393
Other assets	12	1,497	1,810
<b>Total assets</b>		<b>921,617</b>	<b>809,403</b>
<b>Liabilities</b>			
Due to banks and other financial institutions	13	170,858	113,373
Financial liabilities at fair value through profit or loss	7	16,878	29,898
Current customer accounts		8,361	7,430
Long-term loans from banks	14	72,167	44,187
Debt securities issued	15	234,245	212,724
Other liabilities	12	4,124	4,088
<b>Total liabilities</b>		<b>506,633</b>	<b>411,700</b>
<b>Equity</b>			
Subscribed capital	16	1,300,000	1,300,000
Callable capital		(986,947)	(996,947)
<b>Paid-in capital</b>		<b>313,053</b>	<b>303,053</b>
Revaluation reserve for available-for-sale investment securities		551	(1,664)
Revaluation reserve for property and equipment		31,453	31,453
Foreign currency translation reserve		(84)	(120)
Retained earnings less net income for the period		64,981	62,925
Net income for the period		5,030	2,056
<b>Total equity</b>		<b>414,984</b>	<b>397,703</b>
<b>Total equity and liabilities</b>		<b>921,617</b>	<b>809,403</b>

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

Rumyana Kyuchukova



Acting Chairman of the Board

Eugeny Atanassov

Managing Director of the Financial Department

18 August 2016

			<i>For the six months ended 30 June</i>	
			<i>(unaudited)</i>	
	<i>Note</i>	<u>2016</u>	<u>2015</u>	
Interest income	18	16,237	12,139	
Interest expense	18	(13,184)	(7,607)	
<b>Net interest income</b>		<b>3,053</b>	<b>4,532</b>	
Reversal of allowance/(allowance) for loan impairment	11	89	(3,595)	
<b>Net interest income after allowance for loan impairment</b>		<b>3,142</b>	<b>937</b>	
Fee and commission income		525	85	
Fee and commission expense		(66)	(65)	
<b>Net fee and commission income/(expense)</b>		<b>459</b>	<b>20</b>	
Net gains from revaluation of derivative financial instruments		14,198	7,965	
Net losses from revaluation of assets and liabilities in foreign currencies		(21,046)	(9,916)	
Net gains from foreign currencies and foreign exchange derivatives		11,026	6,095	
Net gains from available-for-sale investment securities		3,186	2,375	
Income from lease of investment property		1,782	3,085	
Other income/(expenses)		627	53	
<b>Net non-interest income</b>		<b>9,773</b>	<b>9,657</b>	
<b>Operating income</b>		<b>13,374</b>	<b>10,614</b>	
Reversal of allowance for impairment of other financial assets		14	-	
General and administrative expenses	19	(8,174)	(8,375)	
Other operating expenses on banking operations		(184)	(990)	
<b>Operating expenses</b>		<b>(8,344)</b>	<b>(9,365)</b>	
<b>Income before tax</b>		<b>5,030</b>	<b>1,249</b>	
<b>Income tax</b>		<b>-</b>	<b>-</b>	
<b>Net income for the period</b>		<b>5,030</b>	<b>1,249</b>	

	<i>For the six months ended 30 June (unaudited)</i>	
<i>Note</i>	<u>2016</u>	<u>2015</u>
<b>Net income for the period</b>	<u>5,030</u>	<u>1,249</u>
<b>Other comprehensive income/(loss)</b>		
<i>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:</i>		
Net unrealized losses on available-for-sale investment securities	2,215	(1,886)
Translation differences	36	735
<b>Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods</b>	<u>2,251</u>	<u>(1,151)</u>
<b>Other comprehensive income/(loss)</b>	<u>2,251</u>	<u>(1,151)</u>
<b>Total comprehensive income/(loss) for the period</b>	<u><u>7,281</u></u>	<u><u>98</u></u>



	<i>Subscribed capital</i>	<i>Callable capital</i>	<i>Revaluation reserve for available-for-sale investment securities</i>	<i>Revaluation reserve for property and equipment</i>	<i>Foreign currency translation reserve</i>	<i>Retained earnings</i>	<i>Total equity</i>
<b>At 31 December 2014</b>	<b>1,300,000</b>	<b>(1,027,382)</b>	<b>(999)</b>	<b>35,095</b>	<b>(224)</b>	<b>82,925</b>	<b>389,415</b>
Profit for the period	–	–	–	–	–	1,249	1,249
Other comprehensive loss for the period	–	–	(1,886)	–	735	–	(1,151)
<b>Total comprehensive (loss)/income</b>	<b>–</b>	<b>–</b>	<b>(1,886)</b>	<b>–</b>	<b>735</b>	<b>1,249</b>	<b>98</b>
Contributions to capital (Note 16)	–	20,000	–	–	–	(10,000)	10,000
<b>At 30 June 2015</b>	<b>1,300,000</b>	<b>(1,007,382)</b>	<b>(2,885)</b>	<b>35,095</b>	<b>511</b>	<b>74,174</b>	<b>399,513</b>
<b>At 31 December 2015</b>	<b>1,300,000</b>	<b>(996,947)</b>	<b>(1,664)</b>	<b>31,453</b>	<b>(120)</b>	<b>64,981</b>	<b>397,703</b>
Profit for the period	–	–	–	–	–	5,030	5,030
Other comprehensive income for the period	–	–	2,215	–	36	–	2,251
<b>Total comprehensive income</b>	<b>–</b>	<b>–</b>	<b>2,215</b>	<b>–</b>	<b>36</b>	<b>5,030</b>	<b>7,281</b>
Contributions to capital (Note 16)	–	10,000	–	–	–	–	10,000
<b>At 30 June 2016</b>	<b>1,300,000</b>	<b>(986,947)</b>	<b>551</b>	<b>31,453</b>	<b>(84)</b>	<b>70,011</b>	<b>414,984</b>

	<i>For the six months ended 30 June</i>	
	<i>(unaudited)</i>	
<i>Note</i>	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>		
Interest, fees and commissions received from deposits and long-term loans to banks and other financial institutions, and loans to customers	11,602	7,669
Interest, fees and commissions paid	(2,163)	(527)
Net receipts/(payments) from trading with foreign currencies and derivative financial instruments	11,053	6,106
Cash flows from lease of investment property	1,782	3,085
General and administrative expenses	(4,498)	(6,698)
Other operating income/(expenses) on banking operations	5	(468)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>17,781</b>	<b>9,167</b>
<i>Net (increase)/decrease in operating assets</i>		
Deposits with banks and other financial institutions	29,022	(26,297)
Long-term loans to banks	16,642	4,301
Loans to customers	(129,716)	(21,140)
Other assets	(501)	(3,226)
<i>Net increase/(decrease) in operating liabilities</i>		
Due to banks and other financial institutions	58,519	35,899
Current customer accounts	2,211	274
Other liabilities	227	(191)
<b>Net cash flows from operating activities</b>	<b>(5,815)</b>	<b>(1,213)</b>
<b>Cash flows from investing activities</b>		
Purchase of available-for-sale investment securities	(300,436)	(150,049)
Proceeds from sale and redemption of available-for-sale investment securities	267,412	101,453
Proceeds from redemption of held-to-maturity investment securities	3,478	3,816
Investments in investment property	-	(12)
Acquisition of property and equipment	(757)	(1,044)
<b>Net cash flows from investing activities</b>	<b>(30,303)</b>	<b>(45,836)</b>
<b>Cash flows from financing activities</b>		
Long-term interbank financing raised	60,000	21,448
Long-term interbank financing repaid	(29,569)	(327)
Placement of bonds	-	51,633
Redemption and repurchase of bonds	(10,336)	(45,239)
Contributions to capital	10,000	10,000
<b>Net cash flows from financing activities</b>	<b>30,095</b>	<b>37,515</b>
Effect of exchange rate changes on cash and cash equivalents	623	(752)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(5,400)</b>	<b>(10,286)</b>
<b>Cash and cash equivalents, beginning</b>	<b>59,519</b>	<b>65,675</b>
<b>Cash and cash equivalents, ending</b>	<b>54,119</b>	<b>55,389</b>

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## 1. Principal activities

These interim condensed 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 subsidiary is presented in Note 2.

The International Investment Bank (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 Mashki Poryvaevoi St., Moscow, Russia and European regional office in Bratislava (Europea 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, 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 the ahead-of-schedule final contribution to the Bank's equity. As at the end of June 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 equity grew up to 48.72% exceeding the share of the Russian Federation, which decreased to 47.92%.
- ▶ The Bank continues to implement a new corporate governance structure and introduce the respective changes to its constituent documents. Following the signing of the Protocol on introducing changes to the Agreement on the Establishment of the International Investment Bank and the Statutes in the end of 2015, the member countries are currently implementing the respective ratification procedures.
- ▶ The Bank is assigned the following investment grade ratings: BBB- (outlook stable) by Fitch Ratings, Baa1 (outlook stable) by Moody's and A (outlook stable) by Dagong Global Credit Rating. In June 2016, the Bank was assigned the BBB rating (outlook stable) by Standard&Poor's.
- ▶ In June 2016, the Bank concluded Cooperation agreement on fund raising with the Central Bank of Cuba. The document confirms special status of the International Investment Bank on the territory of Cuba.
- ▶ The International Investment Bank 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 International Investment Bank European Regional Office in Bratislava to ensure security and uninterrupted service of the new CBS.

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## 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, %):

<i>Member countries</i>	<i>30 June 2016 %</i>	<i>31 December 2015 %</i>
Russian Federation	47.923	49.505
Republic of Bulgaria	13.481	13.926
Hungary	12.778	9.899
Czech Republic	9.703	10.023
Slovak Republic	6.862	7.088
Romania	5.895	6.089
Republic of Cuba	1.712	1.769
Socialist Republic of Vietnam	1.172	1.211
Mongolia	0.474	0.490
	<b>100.000</b>	<b>100.000</b>

### 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 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

Political and economic developments in the Bank's member countries may have an impact on enterprises operating in these countries. Considering this fact, the Group performs its operations with reference to the local specific of its member countries to ensure comprehensive 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 2016 in accordance with International Financial Reporting Standard ("IFRS") 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 Group's annual consolidated financial statements as at 31 December 2015.

### 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 30 June 2016.

## 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.

### 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”), 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 financial statements for the year ended 31 December 2015, except for the adoption of new standards effective as at 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2016, 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:

### *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 consolidated line items on the statement of financial position and present movements in these account balances as consolidated line items in the statement of profit or loss and OCI. 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 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard would not apply.

### *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 *Business Combinations* 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. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

### 3. Summary of accounting policies (continued)

#### *Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization*

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a 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. These amendments do not have any impact on 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 *Agriculture*. 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 and be 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. These amendments do not have any impact on 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. First-time adopters of IFRS electing to use the equity method in their consolidated financial statements 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. These amendments do not have any impact on the Group's consolidated financial statements.

#### *Annual improvements 2012-2014 Cycle*

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

##### *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment 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. This amendment must be applied prospectively.

##### *IFRS 7 Financial Instruments: Disclosures*

###### *(i) Servicing contracts*

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.

###### *(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements*

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

### 3. Summary of accounting policies (continued)

#### *IAS 19 Employee Benefits*

The amendment 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. This amendment must be applied prospectively.

#### *IAS 34 Interim Financial Reporting*

The amendment clarifies 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 interim financial report (e.g., in the management commentary or risk report). 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. This amendment must be applied retrospectively.

These amendments do not have any impact on the Group.

#### *Amendments to IAS 1 Disclosure Initiative*

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, the 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 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.

#### *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.

#### 4. Significant accounting judgments and estimates

##### Assumptions and estimation uncertainty

In the process of applying the Group's accounting policies, management has made its professional judgments, used several assumptions and estimates on determining the amounts of assets and liabilities recognized in the interim condensed consolidated financial statements, which have the most significant effect on the amounts recognized in the 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 of the Group for the year ended 31 December 2015.

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 17 – Contingencies and lending commitments.

#### 5. Cash and cash equivalents

Cash and cash equivalents comprise:

	<i>30 June 2016</i> <i>(unaudited)</i>	<i>31 December</i> <i>2015</i>
<b>Cash on hand</b>	<b>132</b>	<b>66</b>
<b>Nostro accounts with banks and other financial institutions</b>		
<i>Credit rating from A- to A+</i>	30,568	21,106
<i>Credit rating from BBB- to BBB+</i>	10,475	3,059
<i>Credit rating from BB- to BB+</i>	658	350
<b>Total Nostro accounts with banks and other financial institutions</b>	<b>41,701</b>	<b>24,515</b>
<b>Short-term deposits with banks:</b>		
Term deposits with banks		
<i>Credit rating from BBB- to BBB+</i>	8,990	18,304
<i>Credit rating from BB- to BB+</i>	1,293	16,634
<i>Credit rating from B- to B+</i>	2,003	–
<b>Total short-term deposits with banks</b>	<b>12,286</b>	<b>34,938</b>
<b>Cash and cash equivalents</b>	<b>54,119</b>	<b>59,519</b>

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

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## 6. Deposits with banks and other financial institutions

Deposits with banks and other financial institutions comprise:

	<i>30 June 2016 (unaudited)</i>	<i>31 December 2015</i>
<b>Term deposits up to 1 year</b>		
<i>Credit rating from BB- to BB+</i>	113	6,049
<i>Credit rating from B- to B+</i>	60,705	79,276
<b>Total term deposits up to 1 year</b>	<b>60,818</b>	<b>85,325</b>
<b>Term deposits over 1 year</b>		
<i>Credit rating from A- to A+</i>	4,365	15,067
<i>Credit rating from BB- to BB+</i>	4,009	–
<b>Total term deposits over 1 year</b>	<b>8,374</b>	<b>15,067</b>
<b>Total deposits with banks and other financial institutions</b>	<b>69,192</b>	<b>100,392</b>

### Amounts due from the Central Bank of the Republic of Cuba

	<i>30 June 2016 (unaudited)</i>	<i>31 December 2015</i>
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)
<b>Term deposits with the Central Bank of the Republic of Cuba</b>	<b>–</b>	<b>–</b>

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

As at 30 June 2016, the Group had three counterparties (31 December 2015: one) accounting for over 20% 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. 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.

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## 7. Financial instruments at fair value through profit or loss (continued)

### Foreign currency transactions

The table below shows the fair value of derivative financial instruments as at 30 June 2016 and 31 December 2015 and notional amounts of term contracts for the purchase and sale of foreign currency specifying weighted average contractual exchange rates.

<i>30 June 2016 (unaudited)</i>					
	<i>Notional amount</i>		<i>Weighted average exchange rate</i>	<i>Fair value</i>	
	<i>Purchase</i>	<i>Sale</i>		<i>Assets</i>	<i>Liabilities</i>
<b>Foreign currency transactions and swaps</b>					
Swaps	12,136,720	185,913			
	RUB'000	EUR'000	65.28	2,422	14,303
	110,300	24,972			
	RON'000	EUR'000	4.42	–	621
	95,000	107,391			
	EUR'000	USD'000	1.13	–	1,849
	2,830	21,000			
	EUR'000	CNY'000	7.42	–	11
Term foreign currency transactions	34,000	37,282			
	EUR'000	USD'000	1.10	599	94
<b>Financial instruments at fair value through profit or loss</b>				<b>3,021</b>	<b>16,878</b>

<i>31 December 2015</i>					
	<i>Notional amount</i>		<i>Weighted average exchange rate</i>	<i>Fair value</i>	
	<i>Purchase</i>	<i>Sale</i>		<i>Assets</i>	<i>Liabilities</i>
<b>Foreign currency transactions and swaps</b>					
Swaps	12,136,720	185,914			
	RUB'000	EUR'000	65.28	–	29,034
	110,300	24,972			
	RON'000	EUR'000	4.42	–	864
	61,000	64,982			
	EUR'000	USD'000	1.07	1,775	–
Term foreign currency transactions	30,000	32,721			
	EUR'000	USD'000	1.09	69	–
<b>Financial instruments at fair value through profit or loss</b>				<b>1,844</b>	<b>29,898</b>

Due to issuing bond loans denominated in currencies other than the functional currency of the Group (Note 15), the Group concluded cross currency interest rate swaps and currency forwards on an arm's length basis with major 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 year end and are not indicative of the credit risk.

As at 30 June 2016 and 31 December 2015, the Group has positions in the following types of derivatives:

**Forwards:** Forwards 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.

## 7. Financial instruments at fair value through profit or loss (continued)

### Foreign currency transactions (continued)

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 changes in the forward EUR to RUB exchange rate.

## 8. Available-for-sale investment securities

Available-for-sale investment securities comprise:

	<i>30 June 2016</i> <i>(unaudited)</i>	<i>31 December</i> <i>2015</i>
<b>Owned by the Group</b>		
<b>Quoted debt securities</b>		
Government bonds of member countries and bonds of regional governments:		
<i>Eurobonds issued by governments of member countries</i>	98,854	93,027
<b>Government bonds of member countries and bonds of regional governments</b>	<b>98,854</b>	<b>93,027</b>
Corporate bonds		
<i>Credit rating from AAA- to AAA+</i>	1,866	–
<i>Credit rating from AA- to AA+</i>	916	–
<i>Credit rating from A- to A+</i>	37,546	–
<i>Credit rating from BB- to BB+</i>	930	–
<b>Corporate bonds</b>	<b>41,258</b>	<b>–</b>
<b>Total quoted debt securities</b>	<b>140,112</b>	<b>93,027</b>
<b>Quoted equity instruments</b>		
<i>No credit rating</i>	4	4
<b>Total quoted equity instruments</b>	<b>4</b>	<b>4</b>
<b>Available-for-sale investment securities</b>	<b>140,116</b>	<b>93,031</b>
<b>Pledged under repurchase agreements</b>		
<b>Quoted debt securities</b>		
<i>Eurobonds issued by governments of member countries</i>	22,317	21,646
<b>Total Eurobonds issued by governments of member countries</b>	<b>22,317</b>	<b>21,646</b>
Corporate bonds		
<i>Credit rating from BBB- to BBB+</i>	1,416	1,382
<b>Corporate bonds</b>	<b>1,416</b>	<b>1,382</b>
<b>Total quoted available-for-sale debt securities pledged under repurchase agreements</b>	<b>23,733</b>	<b>23,028</b>

*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 2015: maturing in 2018-2027). The annual coupon rate for these bonds varies from 2.0% to 6.3% (31 December 2015: from 2.0% to 6.0%).

*Corporate bonds* are represented by the bonds issued by European development banks and major international credit institutions maturing in 2020-2025 (31 December 2015: maturing in 2020). The annual coupon rate for these bonds varies from 0.6% to 5.0% (31 December 2015: 5.0%).

## 9. Held-to-maturity investment securities

Held-to-maturity investment securities comprise:

	<i>30 June 2016</i> <i>(unaudited)</i>	<i>31 December</i> <i>2015</i>
<i>Owned by the Group</i>		
<b>Quoted debt securities</b>		
<i>Eurobonds issued by governments of member countries</i>	1,438	1,272
<b>Government bonds of member countries</b>	<b>1,438</b>	<b>1,272</b>
Corporate bonds		
<i>Credit rating from BBB- to BBB+</i>	16,967	17,442
<i>Credit rating from BB- to BB+</i>	22,557	31,320
<b>Corporate bonds</b>	<b>39,524</b>	<b>48,762</b>
<b>Total quoted held-to-maturity debt securities</b>	<b>40,962</b>	<b>50,034</b>
<i>Held-to-maturity investment securities pledged under repurchase agreements</i>		
<b>Quoted debt securities</b>		
<i>Eurobonds issued by governments of member countries</i>	10,631	10,489
<b>Government bonds of member countries</b>	<b>10,631</b>	<b>10,489</b>
Corporate bonds		
<i>Credit rating from BB- to BB+</i>	61,865	62,705
<b>Corporate bonds</b>	<b>61,865</b>	<b>62,705</b>
<b>Total held-to-maturity investment securities pledged under repurchase agreements</b>	<b>72,496</b>	<b>73,194</b>

*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 2015: maturing in 2018-2020). The annual coupon rate for these bonds varies from 3.6% to 7.9% (31 December 2015: 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 2017-2023 (31 December 2015: maturing in 2016-2023). The annual coupon rate for these bonds varies from 3.0% to 7.8% (31 December 2015: from 3.0% to 7.9%).

## 10. Long-term loans to banks

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.

The Group provided long-term loans to banks operating in the following countries:

	<i>30 June 2016</i> <i>(unaudited)</i>	<i>31 December</i> <i>2015</i>
Mongolia	50,778	43,044
Russian Federation	39,361	64,223
Socialist Republic of Vietnam	33,044	33,330
<b>Total long-term loans to banks</b>	<b>123,183</b>	<b>140,597</b>

As at 30 June 2016 and 31 December 2015, outstanding long-term loans to banks are neither past due nor impaired, and allowances for impairment of these loans were not made.

## 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 30 June 2016 and 31 December 2015:

	30 June 2016 (unaudited)		31 December 2015	
	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	8,695	7.1	6,933	4.9
Uncollateralized part of the loans	114,488	92.9	133,664	95.1
<b>Total long-term loans to banks</b>	<b>123,183</b>	<b>100.0</b>	<b>140,597</b>	<b>100.0</b>

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

### Concentration of long-term loans to banks

As at 30 June 2016, long-term loans to five banks (31 December 2015: 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 statement of financial position. As at 30 June 2016, the total amount of such major loans was EUR 82,159 thousand (31 December 2015: EUR 85,238 thousand) and no impairment allowances (31 December 2015: no allowances) has been made for them.

## 11. Loans to customers

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

	30 June 2016 (unaudited)	31 December 2015
Republic of Bulgaria	115,220	57,917
Romania	32,324	25,844
Russian Federation	28,959	28,160
Mongolia	20,947	21,890
Czech Republic	19,911	–
Slovak Republic	8,406	23,437
Other countries	77,096	18,249
<b>Loans to customers</b>	<b>302,863</b>	<b>175,497</b>
Less: allowance for loan impairment	(9,666)	(9,755)
<b>Loans to customers less allowance for impairment</b>	<b>293,197</b>	<b>165,742</b>

The information on the overdue loans as at 30 June 2016 and 31 December 2015 is stated below:

	30 June 2016 (unaudited)	31 December 2015
Loans with overdue principal and/or interest	14,769	14,858
Less: allowance for loan impairment	(9,666)	(9,755)
<b>Overdue loans to customers</b>	<b>5,103</b>	<b>5,103</b>

As at 30 June 2016 and 31 December 2015, there were no overdue but not impaired loans.

## 11. Loans to customers (continued)

### Allowance for impairment of loans to customers

A reconciliation of the allowance for loan impairment by country is as follows:

	<i>Slovak Republic</i>	<i>Republic of Bulgaria</i>	<i>Total</i>
<b>At 1 January 2016</b>	<b>3,000</b>	<b>6,755</b>	<b>9,755</b>
Net (reversal)/charge for the period	–	(89)	(89)
<b>At 30 June 2016 (unaudited)</b>	<b>3,000</b>	<b>6,666</b>	<b>9,666</b>
<b>Individual impairment</b>	<b>3,000</b>	<b>6,666</b>	<b>9,666</b>
<b>Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance</b>	<b>8,103</b>	<b>6,666</b>	<b>14,769</b>
	<i>Slovak Republic</i>	<i>Republic of Bulgaria</i>	<i>Total</i>
<b>At 1 January 2015</b>	<b>3,589</b>	–	<b>3,589</b>
Net (reversal)/charge for the period	(589)	6,755	6,166
<b>At 31 December 2015</b>	<b>3,000</b>	<b>6,755</b>	<b>9,755</b>
<b>Individual impairment</b>	<b>3,000</b>	<b>6,755</b>	<b>9,755</b>
<b>Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance</b>	<b>8,103</b>	<b>6,755</b>	<b>14,858</b>

### Analysis of collateral

The following table provides an analysis of the customer loan portfolio, net of allowance for impairment, by types of collateral as at 30 June 2016 and 31 December 2015:

	<i>30 June 2016 (unaudited)</i>		<i>31 December 2015</i>	
	<i>Loans net of allowance for impairment</i>	<i>Share in the total loans, %</i>	<i>Loans net of allowance for impairment</i>	<i>Share in the total loans, %</i>
State guarantees	71,241	24.3	18,249	11.0
Pledge of real property (mortgage) and title	33,252	11.3	35,896	21.6
Corporate guarantees	19,911	6.8	–	–
Pledge of right of claim	19,343	6.6	18,492	11.2
Pledge of shares	14,917	5.1	29,952	18.1
Pledge of equipment and goods in turnover	12,865	4.4	13,281	8.0
Pledge of vehicles	3,308	1.1	–	–
Uncollateralized part of the loans	118,360	40.4	49,872	30.1
<b>Total loans to customers</b>	<b>293,197</b>	<b>100.0</b>	<b>165,742</b>	<b>100.0</b>

The amounts shown in the table above represent the carrying amount of the customer loan portfolio, and do not necessarily represent the fair value of the collateral.

During 2016, the Group financed the borrower in the amount EUR 50,251 thousand under syndicated bridge lending for the period of bond emission of the borrower. This loan was showed as uncollateralized in the table above.

### Concentration of loans to customers

As at 30 June 2016, loans to three borrowers (31 December 2015: two 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 statement of financial position. As at 30 June 2016, these loans comprised EUR 121,511 thousand (31 December 2015: EUR 40,991 thousand) in total and no impairment allowances (31 December 2015: no allowances) has been made for them.

## 11. Loans to customers (continued)

### Analysis of loans to customers by industry

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

	<i>30 June 2016</i> <i>(unaudited)</i>	<i>31 December</i> <i>2015</i>
Production and transmission of electrical energy	86,231	14,688
Leases	54,326	44,114
Construction	29,090	29,179
Chemical production	22,393	22,743
Food and beverage	21,820	7,569
Manufacturing of electrical equipment	20,864	21,208
Metallurgic industry	19,911	–
Land transport	14,999	15,001
Oil refining	9,994	9,989
Agriculture	9,991	4,942
Wholesale trade	6,566	5,418
Production of pharmaceutical products	6,375	–
Other	303	298
Production of vehicles	–	348
<b>Loans to customers</b>	<b>302,863</b>	<b>175,497</b>
Less: allowance for loan impairment	(9,666)	(9,755)
<b>Total loans to customers less allowance for loan impairment</b>	<b>293,197</b>	<b>165,742</b>

## 12. Other assets and liabilities

Other assets comprise:

	<i>30 June 2016</i> <i>(unaudited)</i>	<i>31 December</i> <i>2015</i>
<i>Financial assets</i>		
Settlements on bank transactions	1,698	1,525
Other accounts receivable on business operations	996	1,202
Other financial assets	116	–
	<b>2,810</b>	<b>2,727</b>
Less: allowance for impairment	(1,780)	(1,633)
<b>Total financial assets less allowance for impairment</b>	<b>1,030</b>	<b>1,094</b>
<i>Non-financial assets</i>		
Assets held for sale – property	89	–
Inventory	50	43
Other non-financial assets	328	673
<b>Total non-financial assets</b>	<b>467</b>	<b>716</b>
<b>Total other assets</b>	<b>1,497</b>	<b>1,810</b>

The movements in allowance for impairment of other financial assets are as follows:

	<i>30 June 2016</i> <i>(unaudited)</i>	<i>31 December</i> <i>2015</i>
<b>Allowance at 1 January</b>	<b>1,633</b>	<b>1,763</b>
Net reversal/(charge) for the period	14	(89)
Change in allowance resulting from changes in exchange rates	133	(41)
<b>Allowance at the end of the period</b>	<b>1,780</b>	<b>1,633</b>

## 12. Other assets and liabilities (continued)

Other liabilities comprise:

	<i>30 June 2016</i> <i>(unaudited)</i>	<i>31 December</i> <i>2015</i>
<i>Financial liabilities</i>		
Other accounts payable on business operations	381	1,063
Other accounts payable on bank transactions	82	–
<b>Total financial liabilities</b>	<b>463</b>	<b>1,063</b>
<i>Non-financial liabilities</i>		
Settlements with employees	3,511	2,975
Other non-financial liabilities	150	50
<b>Total non-financial liabilities</b>	<b>3,661</b>	<b>3,025</b>
<b>Total other liabilities</b>	<b>4,124</b>	<b>4,088</b>

## 13. Due to banks and other financial institutions

Due to banks and other financial institutions comprise:

	<i>30 June 2016</i> <i>(unaudited)</i>	<i>31 December</i> <i>2015</i>
<b>Due to banks up to 1 year</b>		
Term deposits from banks and other financial institutions	106,681	48,617
<b>Total due to banks up to 1 year</b>	<b>106,681</b>	<b>48,617</b>
<b>Due to banks over 1 year</b>		
Repurchase agreements	64,177	64,756
<b>Total due to banks over 1 year</b>	<b>64,177</b>	<b>64,756</b>
<b>Total due to banks</b>	<b>170,858</b>	<b>113,373</b>

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

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

As at 30 June 2016, the Group has three counterparties (31 December 2015: two counterparties) accounting for over 20% of the Group's total deposits from banks and other financial institutions in the amount of EUR 155,168 thousand (31 December 2015: EUR 87,788 thousand).

## 14. Long-term loans from banks

Long-term loans from banks comprise:

	<i>30 June 2016</i> <i>(unaudited)</i>	<i>31 December</i> <i>2015</i>
Syndicated loans	58,670	–
Loans from banks	13,497	44,187
<b>Total long-term loans from banks</b>	<b>72,167</b>	<b>44,187</b>

In June 2016, the Group received 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.



## 15. Debt securities issued

Debt securities issued comprise:

	<i>Interest rate, % p.a.</i>	<i>Maturity</i>	<i>30 June 2016 (unaudited)</i>	<i>31 December 2015</i>
RUB-denominated bonds	11.7-13.25	2024-2025	178,523	158,067
EUR-denominated bonds	3.5	2019	30,634	30,100
RON-denominated bonds	4.1	2018	25,088	24,557
<b>Total bonds</b>			<b>234,245</b>	<b>212,724</b>

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).

## 16. 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 2016, 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 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 2015: EUR 175,500 thousand).

On 9 March 2016, in accordance with the Memorandum of Understanding signed 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. On 28 December 2015, the Government of Mongolia contributed EUR 434.8 thousand to the Bank's equity.

As a result, the paid-in capital of the International Investment Bank totaled EUR 313,053 thousand (31 December 2015: EUR 303,053 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:

	<i>Revaluation reserve for available-for- sale investment securities</i>	<i>Revaluation reserve for property and equipment</i>
<b>At 1 January 2015</b>	<b>(999)</b>	<b>35,095</b>
Net unrealized gains on available-for-sale investment securities	489	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(2,375)	–
<b>At 30 June 2015 (unaudited)</b>	<b>(2,885)</b>	<b>35,095</b>
<b>At 1 January 2016</b>	<b>(1,664)</b>	<b>31,453</b>
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)	–
<b>At 30 June 2016 (unaudited)</b>	<b>551</b>	<b>31,453</b>

## 17. 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 30 June 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 30 June 2016 and 31 December 2015.

	<i>30 June 2016</i> <i>(unaudited)</i>	<i>31 December</i> <i>2015</i>
Undrawn loan facilities	42,449	52,376
Reimbursement obligations	11,844	6,796
Guarantees issued	–	4,556
<b>Total off-balance commitments</b>	<b>54,293</b>	<b>63,728</b>

## 18. Interest income and interest expense

Net interest income comprises:

	<i>For the six months ended 30 June</i> <i>(unaudited)</i>	
	<i>2016</i>	<i>2015</i>
Loans to customers	6,279	3,547
Long-term loans to banks	3,398	3,275
Held-to-maturity investment securities	2,763	2,978
Deposits with banks and other financial institutions, including cash and cash equivalents	2,092	1,585
Available-for-sale investment securities	1,705	754
<b>Interest income</b>	<b>16,237</b>	<b>12,139</b>
Debt securities issued	(10,833)	(6,731)
Funds raised under repurchase agreements	(904)	(191)
Long-term loans from banks	(632)	(516)
Due to banks and other financial institutions	(597)	(59)
Current customer accounts	(179)	(110)
Other	(39)	–
<b>Interest expense</b>	<b>(13,184)</b>	<b>(7,607)</b>
<b>Net interest income</b>	<b>3,053</b>	<b>4,532</b>

For the six-month period of 2016, there were no interest income accrued on impaired loans (2015: EUR 185 thousand).

## 19. General and administrative expenses

General and administrative expenses comprise:

	<i>For the six months ended 30 June (unaudited)</i>	
	<i>2016</i>	<i>2015</i>
Employee compensations and employment taxes	5,864	5,708
Depreciation of property and equipment	870	702
IT-expenses, inventory and occupancy expenses	731	786
Expenses related to business travel, representative and accommodation expenses	279	583
Professional services	194	224
Other	236	372
<b>General and administrative expenses</b>	<b>8,174</b>	<b>8,375</b>

## 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.

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.

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 Bank'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 of the Group 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.

## 20. Risk management (continued)

### Risk management framework (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 other 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.

As at 30 June 2016 and 31 December 2015, 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 30 June 2016 and 31 December 2015:

<i>30 June 2016 (unaudited)</i>	<i>Loan amount</i>	<i>Impairment</i>	<i>Loan amount, including impairment</i>	<i>Impairment to loan amount ratio, %</i>
<b>Long-term loans to banks:</b>				
<b>Standard loans</b>				
- Mongolia	50,778	–	50,778	–
- Russian Federation	39,361	–	39,361	–
- Socialist Republic of Vietnam	33,044	–	33,044	–
	<b>123,183</b>	<b>–</b>	<b>123,183</b>	<b>–</b>
<b>Loans to customers:</b>				
<b>Standard loans</b>				
- Republic of Bulgaria	108,554	–	108,554	–
- Romania	32,324	–	32,324	–
- Russian Federation	28,959	–	28,959	–
- Mongolia	20,947	–	20,947	–
- Czech Republic	19,911	–	19,911	–
- Slovak Republic	303	–	303	–
- Other	77,096	–	77,096	–
<b>Uncollectible loans</b>				
- Slovak Republic	8,103	(3,000)	5,103	37
- Republic of Bulgaria	6,666	(6,666)	–	100
	<b>302,863</b>	<b>(9,666)</b>	<b>293,197</b>	<b>3.2</b>
<b>Total loans</b>	<b>426,046</b>	<b>(9,666)</b>	<b>416,380</b>	<b>2.3</b>

## 20. Risk management (continued)

### Credit risk (continued)

<i>31 December 2015</i>	<i>Loan amount</i>	<i>Impairment</i>	<i>Loan amount, including impairment</i>	<i>Impairment to loan amount ratio, %</i>
<b>Long-term loans to banks:</b>				
<b>Standard loans</b>				
- Russian Federation	64,223	–	64,223	–
- Mongolia	43,044	–	43,044	–
- Socialist Republic of Vietnam	33,330	–	33,330	–
	<b>140,597</b>	<b>–</b>	<b>140,597</b>	<b>–</b>
<b>Loans to customers:</b>				
<b>Standard loans</b>				
- 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	–
<b>Uncollectible loans</b>				
- Slovak Republic	8,103	(3,000)	5,103	37
- Republic of Bulgaria	6,755	(6,755)	–	100
	<b>175,497</b>	<b>(9,755)</b>	<b>165,742</b>	<b>5.6</b>
<b>Total loans</b>	<b>316,094</b>	<b>(9,755)</b>	<b>306,339</b>	<b>3.1</b>

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 structured 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 Procedures 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.

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).

## 20. Risk management (continued)

### Liquidity risk (continued)

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 30 June 2016, the liquidity buffer amounts to EUR 110.4 million (31 December 2015: EUR 65.1 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.

	<u>30 June 2016</u> <i>(unaudited)</i>	<u>31 December 2015</u>
Less than 1 month	23,849	52,376
1 to 3 months	3,523	178
3 months to 1 year	26,921	7,254
1 to 5 years	–	3,920
<b>Off-balance credit-related commitments</b>	<b><u>54,293</u></b>	<b><u>63,728</u></b>

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## 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 2016 (unaudited)							31 December 2015								
	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
<b>Assets</b>																
Cash and cash equivalents	54,037	82	–	–	–	–	–	<b>54,119</b>	59,519	–	–	–	–	–	–	<b>59,519</b>
Deposits with banks and other financial institutions	15,390	–	52,152	1,650	–	–	–	<b>69,192</b>	15,352	15,627	54,346	15,067	–	–	–	<b>100,392</b>
Financial assets at fair value through profit or loss	599	–	2,028	394	–	–	–	<b>3,021</b>	69	–	1,775	–	–	–	–	<b>1,844</b>
Available-for-sale investment securities	140,112	17	149	1,398	22,169	4	–	<b>163,849</b>	93,027	230	65	22,733	–	4	–	<b>116,059</b>
Held-to-maturity investment securities	198	657	10,691	76,714	25,198	–	–	<b>113,458</b>	64	972	2,981	76,728	42,483	–	–	<b>123,228</b>
Long-term loans to banks	37	18,250	11,183	88,291	5,422	–	–	<b>123,183</b>	–	3,160	41,112	76,374	19,951	–	–	<b>140,597</b>
Loans to customers	14,798	266	93,506	122,992	56,532	–	5,103	<b>293,197</b>	982	1,872	26,573	85,268	45,944	–	5,103	<b>165,742</b>
Other assets	124	14	485	407	–	–	–	<b>1,030</b>	69	81	473	–	–	–	–	<b>623</b>
<b>Total assets</b>	<b>225,295</b>	<b>19,286</b>	<b>170,194</b>	<b>291,846</b>	<b>109,321</b>	<b>4</b>	<b>5,103</b>	<b>821,049</b>	<b>169,082</b>	<b>21,942</b>	<b>127,325</b>	<b>276,170</b>	<b>108,378</b>	<b>4</b>	<b>5,103</b>	<b>708,004</b>
<b>Liabilities</b>																
Due to banks and other financial institutions	(58,021)	–	(52,466)	(60,371)	–	–	–	<b>(170,858)</b>	(28,421)	–	(20,196)	(64,756)	–	–	–	<b>(113,373)</b>
Current customer accounts	(8,361)	–	–	–	–	–	–	<b>(8,361)</b>	(7,430)	–	–	–	–	–	–	<b>(7,430)</b>
Financial liabilities at fair value through profit or loss	(104)	(100)	(14,304)	(2,370)	–	–	–	<b>(16,878)</b>	–	–	(16,191)	(13,707)	–	–	–	<b>(29,898)</b>
Long-term loans from banks	–	–	(13,529)	(58,638)	–	–	–	<b>(72,167)</b>	(102)	–	(24,529)	(19,556)	–	–	–	<b>(44,187)</b>
Debt securities issued	–	–	(102,556)	(131,689)	–	–	–	<b>(234,245)</b>	–	–	(40,111)	(172,613)	–	–	–	<b>(212,724)</b>
Other liabilities	(19)	–	(442)	(2)	–	–	–	<b>(463)</b>	(43)	(988)	(32)	–	–	–	–	<b>(1,063)</b>
<b>Total liabilities</b>	<b>(66,505)</b>	<b>(100)</b>	<b>(183,297)</b>	<b>(253,070)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(502,972)</b>	<b>(35,996)</b>	<b>(988)</b>	<b>(101,059)</b>	<b>(270,632)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(408,675)</b>
<b>Net position</b>	<b>158,611</b>	<b>19,104</b>	<b>(13,103)</b>	<b>38,776</b>	<b>109,321</b>	<b>4</b>	<b>5,103</b>	<b>317,816</b>	<b>158,611</b>	<b>19,104</b>	<b>(13,103)</b>	<b>38,776</b>	<b>109,321</b>	<b>4</b>	<b>5,103</b>	<b>317,816</b>
<b>Accumulated net position</b>	<b>158,611</b>	<b>177,715</b>	<b>164,612</b>	<b>203,388</b>	<b>312,709</b>	<b>312,713</b>	<b>317,816</b>	<b>158,611</b>	<b>177,715</b>	<b>164,612</b>	<b>203,388</b>	<b>312,709</b>	<b>312,713</b>	<b>317,816</b>	<b>317,816</b>	<b>317,816</b>

## 20. 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.

The Group applies a VaR methodology to assess currency 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.

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 2016, final data on value at risk assessment in relation to currency risks assumed by the Group are represented as follows:

	<i>30 June 2016</i> <i>(unaudited)</i>	<i>31 December 2015</i>
Fixed income securities price risk	1,303	1,536
Currency risk	243	126

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.



## 20. Risk management (continued)

### Market risk (continued)

The Group has assets and liabilities denominated in several foreign currencies. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. 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 2016 and 31 December 2015 is presented below:

<i>Monetary items</i>	<i>30 June 2016 (unaudited)</i>					<i>31 December 2015</i>				
	<i>EUR</i>	<i>USD</i>	<i>RUB</i>	<i>Other currencies</i>	<i>Total</i>	<i>EUR</i>	<i>USD</i>	<i>RUB</i>	<i>Other currencies</i>	<i>Total</i>
<b>Assets</b>										
Cash and cash equivalents	42,257	10,240	1,459	163	<b>54,119</b>	37,363	20,147	1,907	102	<b>59,519</b>
Deposits with banks and other financial institutions	69,079	–	113	–	<b>69,192</b>	99,990	–	402	–	<b>100,392</b>
Available-for-sale investment securities	124,817	36,217	–	2,815	<b>163,849</b>	89,426	26,633	–	–	<b>116,059</b>
Held-to-maturity investment securities	54,826	56,071	2,561	–	<b>113,458</b>	55,416	63,636	4,176	–	<b>123,228</b>
Long-term loans to banks	83,113	40,070	–	–	<b>123,183</b>	106,063	34,534	–	–	<b>140,597</b>
Loans to customers	193,709	99,488	–	–	<b>293,197</b>	124,751	40,991	–	–	<b>165,742</b>
Other assets	141	79	417	393	<b>1,030</b>	12	–	171	440	<b>623</b>
<b>Total monetary assets</b>	<b>567,942</b>	<b>242,165</b>	<b>4,550</b>	<b>3,371</b>	<b>818,028</b>	<b>513,021</b>	<b>185,941</b>	<b>6,656</b>	<b>542</b>	<b>706,160</b>
<b>Liabilities</b>										
Due to banks and other financial institutions	(76,025)	(94,833)	–	–	<b>(170,858)</b>	(52,785)	(59,706)	(882)	–	<b>(113,373)</b>
Current customer accounts	(8,158)	(203)	–	–	<b>(8,361)</b>	(7,220)	(210)	–	–	<b>(7,430)</b>
Long-term loans from banks	(58,670)	(13,497)	–	–	<b>(72,167)</b>	(7,494)	(36,693)	–	–	<b>(44,187)</b>
Debt securities issued	(30,634)	–	(178,523)	(25,088)	<b>(234,245)</b>	(30,030)	–	(158,099)	(24,595)	<b>(212,724)</b>
Other liabilities	(46)	(32)	(380)	(5)	<b>(463)</b>	(212)	(1)	(818)	(32)	<b>(1,063)</b>
<b>Total monetary liabilities</b>	<b>(173,533)</b>	<b>(108,565)</b>	<b>(178,903)</b>	<b>(25,093)</b>	<b>(486,094)</b>	<b>(97,741)</b>	<b>(96,610)</b>	<b>(159,799)</b>	<b>(24,627)</b>	<b>(378,777)</b>
<b>Net balance sheet position excluding derivative financial instruments</b>	<b>394,409</b>	<b>133,600</b>	<b>(174,353)</b>	<b>(21,722)</b>	<b>331,934</b>	<b>415,280</b>	<b>89,331</b>	<b>(153,143)</b>	<b>(24,085)</b>	<b>327,383</b>
<b>Derivative financial instruments</b>										
Claims	97,830	–	174,032	24,351	<b>296,213</b>	61,068	–	156,879	24,108	<b>242,055</b>
Liabilities	(210,885)	(96,344)	–	(2,841)	<b>(310,070)</b>	(210,884)	(59,225)	–	–	<b>(270,109)</b>
<b>Net balance sheet position including derivative financial instruments</b>	<b>281,354</b>	<b>37,256</b>	<b>(321)</b>	<b>(212)</b>	<b>318,077</b>	<b>265,464</b>	<b>30,106</b>	<b>3,736</b>	<b>23</b>	<b>299,329</b>

## 21. 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

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.

	<i>Level 1</i> <i>30 June</i>	<i>Level 2</i> <i>30 June</i>	<i>Level 3</i> <i>30 June</i>	<i>Total</i> <i>30 June</i>
	<i>2016 (unaudited)</i>	<i>2016 (unaudited)</i>	<i>2016 (unaudited)</i>	<i>2016 (unaudited)</i>
<i>Assets measured at fair value</i>				
Derivative financial assets	–	3,021	–	3,021
Government bonds of member countries and bonds of regional governments	121,171	–	–	121,171
Corporate bonds	42,674	–	–	42,674
Quoted equity instruments	4	–	–	4
Investment property	–	–	33,851	33,851
Property and equipment – buildings	–	–	62,361	62,361
<i>Liabilities measured at fair value</i>				
Derivative financial liabilities	–	16,878	–	16,878
<i>Assets for which fair values are disclosed</i>				
Cash and cash equivalents	132	53,987	–	54,119
Deposits with banks and other financial institutions	–	–	69,192	69,192
Held-to-maturity investment securities	114,629	–	–	114,629
Long-term loans to banks	–	–	118,643	118,643
Loans to customers	–	–	291,996	291,996
<i>Liabilities for which fair values are disclosed</i>				
Due to banks and other financial institutions	–	–	170,858	170,858
Current customer accounts	–	–	8,361	8,361
Long-term loans from banks	–	–	72,167	72,167
Debt securities issued	–	240,695	–	240,695

## 21. Fair values of financial instruments (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:

	<i>Level 1</i> 2015	<i>Level 2</i> 2015	<i>Level 3</i> 2015	<i>Total</i> 2015
<b><i>Assets measured at fair value</i></b>				
Derivative financial assets	–	1,844	–	1,844
Government bonds of member countries and bonds of regional governments	114,673	–	–	114,673
Corporate bonds	1,382	–	–	1,382
Quoted equity instruments	–	4	–	4
Investment property	–	–	33,819	33,819
Property and equipment – buildings	–	–	62,807	62,807
<b><i>Liabilities measured at fair value</i></b>				
Derivative financial liabilities	–	29,898	–	29,898
<b><i>Assets for which fair values are disclosed</i></b>				
Cash and cash equivalents	66	59,453	–	59,519
Deposits with banks and other financial institutions	–	–	100,380	100,380
Held-to-maturity investment securities	114,876	–	–	114,876
Long-term loans to banks	–	–	139,891	139,891
Loans to customers	–	–	165,742	165,742
<b><i>Liabilities for which fair values are disclosed</i></b>				
Due to banks and other financial institutions	–	–	113,373	113,373
Current customer accounts	–	–	7,430	7,430
Long-term loans from banks	–	–	44,187	44,187
Debt securities issued	–	214,734	–	214,734

### Fair values 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.

	<i>Carrying amount at 30 June 2016 (unaudited)</i>	<i>Fair value at 30 June 2016 (unaudited)</i>	<i>Unrecognized gain/(loss) for 6 months of 2016 (unaudited)</i>	<i>Carrying amount at 31 December 2015</i>	<i>Fair value at 31 December 2015</i>	<i>Unrecognized gain/(loss) for 2015</i>
<b><i>Financial assets</i></b>						
Cash and cash equivalents	54,119	54,119	–	59,519	59,519	–
Deposits with banks and other financial institutions	69,192	69,192	–	100,392	100,392	–
Held-to-maturity investment securities	113,458	114,629	1,171	123,228	114,876	(8,352)
Long-term loans to banks	123,183	118,643	(4,540)	140,597	139,891	(706)
Loans to customers	293,197	291,996	(1,201)	165,742	165,742	–
<b><i>Financial liabilities</i></b>						
Due to banks and other financial institutions	170,858	170,858	–	113,373	113,373	–
Current customer accounts	8,361	8,361	–	7,430	7,430	–
Long-term loans from banks	72,167	72,167	–	44,187	44,187	–
Debt securities issued	234,245	240,695	(6,450)	212,724	214,734	(2,010)
<b>Total unrecognized change in unrealized fair value</b>			<b>(11,020)</b>			<b>(11,068)</b>

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

<i>30 June 2016 (unaudited)</i>	<i>Credit investment activity</i>	<i>Treasury</i>	<i>Other operations</i>	<i>Total</i>
<b>Income</b>				
<b>External customers</b>				
Interest income	9,677	6,560	–	16,237
Net gains from trading in foreign currencies	–	11,026	–	11,026
Net gains from revaluation of derivative financial instruments	–	15,647	–	15,647
Net gains from available-for-sale investment securities	–	3,186	–	3,186
Net gains from held-to-maturity investment securities	–	251	–	251
Reversal of allowance for loan impairment	–	–	89	89
Income from lease of investment property	–	–	1,782	1,782
Reversal of allowance for impairment of other assets	–	–	14	14
Other segment income	471	–	298	769
<b>Total income</b>	<b>10,148</b>	<b>36,670</b>	<b>2,183</b>	<b>49,001</b>
Interest expense	(5,288)	(7,896)	–	(13,184)
Net losses from revaluation of derivative financial instruments	–	(1,449)	–	(1,449)
Net losses from revaluation of assets and liabilities in foreign currencies	–	(20,996)	(50)	(21,046)
Other segment expenses	(2)	(60)	(56)	(118)
<b>Segment results</b>	<b>4,858</b>	<b>6,269</b>	<b>2,077</b>	<b>13,204</b>
Other unallocated expenses				(8,174)
<b>Profit for the period</b>				<b>5,030</b>
Segment assets	416,380	403,401	101,836	921,617
Segment liabilities	141,326	361,182	4,125	506,633
<b>Other segment information</b>				
Capital expenditures	–	–	566	566

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## 22. Segment information (continued)

<i>30 June 2015 (unaudited)</i>	<i>Credit investment activity</i>	<i>Treasury</i>	<i>Other operations</i>	<i>Total</i>
<b>Income</b>				
<i>External customers</i>				
Interest income	6,822	5,272	45	<b>12,139</b>
Net gains from trading in foreign currencies	–	6,108	–	<b>6,108</b>
Net gains from available-for-sale investment securities	–	2,375	–	<b>2,375</b>
Income from lease of investment property	–	–	3,085	<b>3,085</b>
Other segment income	70	–	63	<b>133</b>
<b>Total income</b>	<b>6,892</b>	<b>13,755</b>	<b>3,193</b>	<b>23,840</b>
Interest expense	(3,292)	(4,315)	–	<b>(7,607)</b>
Net losses from trading in foreign currencies	–	–	(13)	<b>(13)</b>
Allowance for loan impairment	(3,595)	–	–	<b>(3,595)</b>
Other segment expenses	–	(56)	(994)	<b>(1,050)</b>
<b>Segment results</b>	<b>5</b>	<b>9,384</b>	<b>2,186</b>	<b>11,575</b>
Other unallocated expenses				<b>(10,326)</b>
<b>Profit for the period</b>				<b>1,249</b>
Segment assets	256,007	333,871	112,047	<b>701,925</b>
Segment liabilities	83,201	215,181	4,030	<b>302,412</b>
<b>Other segment information</b>				
Capital expenditures	–	–	22	<b>22</b>

At 30 June 2016, the Group's revenue from lease operations with two external counterparties (30 June 2015: one counterparty) exceeded 20% of the Group's total revenue (30 June 2016: EUR 1,443 thousand; 30 June 2015: EUR 960 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 six months ended 30 June 2016 and 30 June 2015 is presented in the table below:

	<i>30 June 2016 (unaudited)</i>				<i>30 June 2015 (unaudited)</i>			
	<i>Russia</i>	<i>Other member countries</i>	<i>Other countries</i>	<i>Total</i>	<i>Russia</i>	<i>Other member countries</i>	<i>Other countries</i>	<i>Total</i>
Interest income	4,677	7,961	3,599	<b>16,237</b>	6,113	5,001	1,025	<b>12,139</b>
Income from lease of investment property	1,782	–	–	<b>1,782</b>	3,085	–	–	<b>3,085</b>
Non-current assets	100,101	–	–	<b>100,101</b>	106,498	–	–	<b>106,498</b>

Non-current assets include property and equipment and investment property.

## 22. Segment information (continued)

### Geographical information (continued)

The geographical concentration of the Group's financial assets and liabilities based on the location of the Group's counterparties as at 30 June 2016 and 31 December 2015 is presented below:

	<i>30 June 2016 (unaudited)</i>									
	<i>Russian Federation</i>	<i>Republic of Bulgaria</i>	<i>Romania</i>	<i>Slovak Republic</i>	<i>Hungary</i>	<i>Mongolia</i>	<i>Socialist Republic of Vietnam</i>	<i>Czech Republic</i>	<i>Other countries</i>	<i>Total</i>
<b>Assets</b>										
Cash and cash equivalents	5,066	190	17	25	–	–	–	–	48,821	<b>54,119</b>
Deposits with banks and other financial institutions	4,122	–	–	–	–	27,180	–	–	37,890	<b>69,192</b>
Financial instruments at fair value through profit or loss	707	–	–	–	–	–	–	–	2,314	<b>3,021</b>
Investment securities:										
- available-for-sale	–	30,504	24,124	10,254	29,652	14,283	12,064	1,222	41,746	<b>163,849</b>
- held-to-maturity	96,492	–	–	–	–	–	–	–	16,966	<b>113,458</b>
Long-term loans to banks less allowances for impairment	39,361	–	–	–	–	50,778	33,044	–	–	<b>123,183</b>
Loans to customers less allowances for impairment	28,959	108,554	32,324	5,406	–	20,947	–	19,911	77,096	<b>293,197</b>
<b>Assets</b>	<b>174,707</b>	<b>139,248</b>	<b>56,465</b>	<b>15,685</b>	<b>29,652</b>	<b>113,188</b>	<b>45,108</b>	<b>21,133</b>	<b>224,833</b>	<b>820,019</b>
<b>Liabilities</b>										
Due to banks and other financial institutions	–	–	–	7,507	8,992	–	–	40,038	114,321	<b>170,858</b>
Financial instruments at fair value through profit or loss	11,900	–	621	–	–	–	–	–	4,357	<b>16,878</b>
Long-term loans from banks	9,778	20,831	–	–	7,334	–	–	–	34,224	<b>72,167</b>
Long-term securities issued	178,523	–	25,088	30,634	–	–	–	–	–	<b>234,245</b>
<b>Liabilities</b>	<b>200,201</b>	<b>20,831</b>	<b>25,709</b>	<b>38,141</b>	<b>16,326</b>	<b>–</b>	<b>–</b>	<b>40,038</b>	<b>152,902</b>	<b>494,148</b>

## 22. Segment information (continued)

### Geographical information (continued)

	<i>31 December 2015</i>									
	<i>Russian Federation</i>	<i>Republic of Bulgaria</i>	<i>Romania</i>	<i>Slovak Republic</i>	<i>Hungary</i>	<i>Mongolia</i>	<i>Socialist Republic of Vietnam</i>	<i>Czech Republic</i>	<i>Other countries</i>	<i>Total</i>
<b>Assets</b>										
Cash and cash equivalents	2,026	219	17	15	–	–	–	–	57,242	<b>59,519</b>
Deposits with banks and other financial institutions	6,049	–	–	–	–	30,539	–	–	63,804	<b>100,392</b>
Financial instruments at fair value through profit or loss	669	–	–	–	–	–	–	–	1,175	<b>1,844</b>
Investment securities:										
- available-for-sale	–	26,889	31,150	13,208	12,056	13,746	11,506	6,118	1,386	<b>116,059</b>
- held-to-maturity	105,785	–	–	–	–	–	–	–	17,443	<b>123,228</b>
Long-term loans to banks less allowances for impairment	64,223	–	–	–	–	43,044	33,330	–	–	<b>140,597</b>
Loans to customers less allowances for impairment	28,160	51,162	25,844	20,437	–	21,890	–	–	18,249	<b>165,742</b>
<b>Assets</b>	<b>206,912</b>	<b>78,270</b>	<b>57,011</b>	<b>33,660</b>	<b>12,056</b>	<b>109,219</b>	<b>44,836</b>	<b>6,118</b>	<b>159,299</b>	<b>707,381</b>
<b>Liabilities</b>										
Due to banks and other financial institutions	992	–	–	7,508	–	–	–	20,086	84,787	<b>113,373</b>
Financial instruments at fair value through profit or loss	18,723	–	864	–	–	–	–	–	10,311	<b>29,898</b>
Long-term loans from banks	22,953	13,740	–	7,494	–	–	–	–	–	<b>44,187</b>
Long-term securities issued	158,067	–	24,557	30,100	–	–	–	–	–	<b>212,724</b>
<b>Liabilities</b>	<b>200,735</b>	<b>13,740</b>	<b>25,421</b>	<b>45,102</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>20,086</b>	<b>95,098</b>	<b>400,182</b>

Other countries include countries that not belong to Member countries of the Bank.

## 23. 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 30 June 2016:

30 June 2016 (unaudited)	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	
<b>Financial assets</b>						
Financial assets pledged under repurchase agreements	96,229	–	96,229	(64,177)	–	32,052
<b>Total</b>	<b>96,229</b>	<b>–</b>	<b>96,229</b>	<b>(64,177)</b>	<b>–</b>	<b>32,052</b>
<b>Financial liabilities</b>						
Repurchase agreements with banks	64,177	–	64,177	(64,177)	–	–
<b>Total</b>	<b>64,177</b>	<b>–</b>	<b>64,177</b>	<b>(64,177)</b>	<b>–</b>	<b>–</b>

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:

31 December 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	
<b>Financial assets</b>						
Financial assets pledged under repurchase agreements	96,222	–	96,222	(64,756)	–	31,466
<b>Total</b>	<b>96,222</b>	<b>–</b>	<b>96,222</b>	<b>(64,756)</b>	<b>–</b>	<b>31,466</b>
<b>Financial liabilities</b>						
Repurchase agreements with banks	64,756	–	64,756	(64,756)	–	–
<b>Total</b>	<b>64,756</b>	<b>–</b>	<b>64,756</b>	<b>(64,756)</b>	<b>–</b>	<b>–</b>

## 24. 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.



## 24. Related party disclosures (continued)

The volumes of related party transactions, outstanding balances as at 30 June 2016 and 31 December 2015, and related expense and income for the six months ended 30 June 2016 and 30 June 2015 are as follows:

	<i>Related party</i>	<i>30 June 2016 (unaudited)</i>		<i>31 December 2015</i>	
		<i>Carrying amount</i>	<i>Average interest rate, %</i>	<i>Carrying amount</i>	<i>Average interest rate, %</i>
<b>Consolidated statement of financial position</b>					
Other liabilities	Key management personnel	346	–	493	–
<b>Interim consolidated income statement</b>					
				<i>For the six months ended 30 June (unaudited)</i>	
				<i>2016</i>	<i>2015</i>
	<i>Related party</i>			<i>Income/ (expense)</i>	<i>Income/ (expense)</i>
Interest expense on current customer accounts	Key management personnel			(34)	(37)
<b>Net interest expense after allowance for loan impairment</b>				<b>(34)</b>	<b>(37)</b>
<b>Operating losses</b>				<b>(34)</b>	<b>(37)</b>
Employee benefits	Key management personnel			(572)	(710)
Compensation for travel expenses and medical insurance	Key management personnel			(55)	(74)
<b>Operating expenses</b>				<b>(627)</b>	<b>(784)</b>
<b>Net loss for the period</b>				<b>(661)</b>	<b>(821)</b>

## 25. 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 2016, this minimum level was 8% (2015: 8%).

Besides, taking into account the Group's status as the multilateral development institution as well as the structure of the Bank's member countries, the Bank's Council set the capital adequacy ratio for the Bank at the level of not less than 25% as at 30 June 2016 (2015: 25%).

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## 25. 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 2016 and 31 December 2015.

	<i>30 June 2016</i> <i>(unaudited)</i>	<i>31 December</i> <i>2015</i>
<b>Capital</b>		
Tier 1 capital	378,034	365,978
Tier 2 capital	32,004	29,789
<b>Total regulatory capital</b>	<b>410,038</b>	<b>395,767</b>
<b>Risk-weighted assets</b>		
<i>Credit risk</i>	622,988	560,094
<i>Market risk</i>	120,488	70,461
<i>Operational risk</i>	57,999	55,548
<b>Total risk-weighted assets</b>	<b>801,475</b>	<b>686,103</b>
<b>Total capital expressed as a percentage of risk-weighted assets, %</b> <b>("capital adequacy ratio")</b>	51.16%	57.68%
<b>Total tier 1 capital expressed as a percentage of risk-weighted assets, %</b> <b>("tier 1 capital adequacy ratio")</b>	47.17%	53.34%

*(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.

## **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)*

	<i>Note</i>	<i>30 June 2017 (unaudited)</i>	<i>31 December 2016</i>
<b>Assets</b>			
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
<b>Total assets</b>		<b>1,002,669</b>	<b>881,443</b>
<b>Liabilities</b>			
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
<b>Total liabilities</b>		<b>609,905</b>	<b>491,225</b>
<b>Equity</b>			
Subscribed capital	15	1,300,000	1,300,000
Callable capital		(986,947)	(986,947)
<b>Paid-in capital</b>		<b>313,053</b>	<b>313,053</b>
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
<b>Total equity</b>		<b>392,764</b>	<b>390,218</b>
<b>Total equity and liabilities</b>		<b>1,002,669</b>	<b>881,443</b>

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.*

	<i>Note</i>	<i>For the six months ended 30 June</i>	
		<i>(unaudited)</i>	
		<u>2017</u>	<u>2016</u>
Interest income	18	16,147	16,237
Interest expense	18	(14,364)	(13,184)
<b>Net interest income</b>		<b>1,783</b>	<b>3,053</b>
Allowance for loan impairment	9, 10	(3,781)	89
<b>Net interest (expense)/income after allowance for loan impairment</b>		<b>(1,998)</b>	<b>3,142</b>
Fee and commission income		302	525
Fee and commission expense		(71)	(66)
<b>Net fee and commission income</b>		<b>231</b>	<b>459</b>
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
<b>Net non-interest income</b>		<b>13,737</b>	<b>9,773</b>
<b>Operating income</b>		<b>11,970</b>	<b>13,374</b>
Reversal of allowance for impairment of other assets	11	27	14
General and administrative expenses	19	(9,061)	(8,174)
Other expenses		(649)	(184)
<b>Operating expenses</b>		<b>(9,683)</b>	<b>(8,344)</b>
<b>Net income for the period</b>		<b>2,287</b>	<b>5,030</b>



	<i>For the six months ended 30 June</i>	
	<i>(unaudited)</i>	
<i>Note</i>	<u>2017</u>	<u>2016</u>
<b>Net income for the period</b>	<u>2,287</u>	<u>5,030</u>
<b>Other comprehensive income</b>		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>		
Change in unrealized revaluation of available-for-sale investment securities	15      271	2,215
Translation differences	<u>(12)</u>	<u>36</u>
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>	<u>259</u>	<u>2,251</u>
<b>Other comprehensive income</b>	<u>259</u>	<u>2,251</u>
<b>Total income for the period</b>	<u><u>2,546</u></u>	<u><u>7,281</u></u>

	<i>Subscribed capital</i>	<i>Callable capital</i>	<i>Revaluation reserve for available-for-sale investment securities</i>	<i>Revaluation reserve for property and equipment</i>	<i>Foreign currency translation reserve</i>	<i>Retained earnings</i>	<i>Total equity</i>
<b>At 31 December 2015</b>	<b>1,300,000</b>	<b>(996,947)</b>	<b>(1,664)</b>	<b>31,453</b>	<b>(120)</b>	<b>64,981</b>	<b>397,703</b>
Profit for the period	–	–	–	–	–	5,030	<b>5,030</b>
Other comprehensive income for the period	–	–	2,215	–	36	–	<b>2,251</b>
<b>Total comprehensive income</b>	<b>–</b>	<b>–</b>	<b>2,215</b>	<b>–</b>	<b>36</b>	<b>5,030</b>	<b>7,281</b>
Contributions to capital (Note 15)	–	10,000	–	–	–	–	<b>10,000</b>
<b>At 30 June 2016 (unaudited)</b>	<b>1,300,000</b>	<b>(986,947)</b>	<b>551</b>	<b>31,453</b>	<b>(84)</b>	<b>70,011</b>	<b>414,984</b>
<b>At 31 December 2016</b>	<b>1,300,000</b>	<b>(986,947)</b>	<b>(1,506)</b>	<b>12,945</b>	<b>(57)</b>	<b>65,783</b>	<b>390,218</b>
Profit for the period	–	–	–	–	–	2,287	<b>2,287</b>
Other comprehensive income/(loss) for the period	–	–	271	–	(12)	–	<b>259</b>
<b>Total comprehensive income/(loss)</b>	<b>–</b>	<b>–</b>	<b>271</b>	<b>–</b>	<b>(12)</b>	<b>2,287</b>	<b>2,546</b>
<b>At 30 June 2017 (unaudited)</b>	<b>1,300,000</b>	<b>(986,947)</b>	<b>(1,235)</b>	<b>12,945</b>	<b>(69)</b>	<b>68,070</b>	<b>392,764</b>

	<i>For the six months ended 30 June</i>	
	<i>(unaudited)</i>	
<i>Note</i>	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities</b>		
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
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>17,221</b>	<b>18,423</b>
<i>Net (increase)/decrease in operating assets</i>		
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)
<i>Net (decrease)/increase in operating liabilities</i>		
Deposits from banks and other financial institutions	(4,037)	58,519
Current customer accounts	(543)	2,211
Other liabilities	4,397	227
<b>Net cash flows from operating activities</b>	<b>(151,016)</b>	<b>(5,173)</b>
<b>Cash flows from investing activities</b>		
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	–
<b>Net cash flows from investing activities</b>	<b>36,632</b>	<b>(30,303)</b>
<b>Cash flows from financing activities</b>		
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
<b>Net cash flows from financing activities</b>	<b>131,352</b>	<b>29,453</b>
Effect of exchange rate changes on cash and cash equivalents	(3,781)	623
<b>Net decrease in cash and cash equivalents</b>	<b>13,187</b>	<b>(5,400)</b>
<b>Cash and cash equivalents, beginning</b>	<b>93,031</b>	<b>59,519</b>
<b>Cash and cash equivalents, ending</b>	<b>5</b> <b>106,218</b>	<b>54,119</b>

## 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 Mashki Poryvaevoi St., Moscow, Russia, and the European regional office in Bratislava (Europea 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 Bank 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.

## 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, %):

<i>Member countries</i>	<i>30 June 2017, % (unaudited)</i>	<i>31 December 2016, %</i>
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
	<b>100.000</b>	<b>100.000</b>

### 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).

## 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.

### 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:

	<i>30 June 2017 (unaudited)</i>	<i>31 December 2016</i>
<b>Cash on hand</b>	<b>236</b>	<b>104</b>
<b>Nostro accounts with banks and other financial institutions:</b>		
<i>Credit rating from A- to A+</i>	65,761	62,548
<i>Credit rating from BBB- to BBB+</i>	7,130	4,526
<i>Credit rating from BB- to BB+</i>	446	551
<b>Total Nostro accounts with banks and other financial institutions</b>	<b>73,337</b>	<b>67,625</b>
<b>Short-term deposits with banks:</b>		
Term deposits with banks		
<i>Credit rating from BBB- to BBB+</i>	10,332	–
<i>Credit rating from BB- to BB+</i>	–	25,302
<i>Credit rating from B- to B+</i>	22,313	–
<b>Total short-term deposits with banks</b>	<b>32,645</b>	<b>25,302</b>
<b>Cash and cash equivalents</b>	<b>106,218</b>	<b>93,031</b>

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

## 6. Deposits with banks and other financial institutions

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

	<i>30 June 2017</i> <i>(unaudited)</i>	<i>31 December</i> <i>2016</i>
<b>Term deposits up to 1 year:</b>		
<i>Credit rating from B- to B+</i>	47,589	37,126
<b>Total term deposits up to 1 year</b>	<b>47,589</b>	<b>37,126</b>
<b>Term deposits over 1 year:</b>		
<i>Credit rating from A- to A+</i>	3,072	5,821
<i>Credit rating from BB- to BB+</i>	4,680	2,390
<b>Total term deposits over 1 year</b>	<b>7,752</b>	<b>8,211</b>
<b>Total deposits with banks and other financial institutions</b>	<b>55,341</b>	<b>45,337</b>

### Amounts due from the Central Bank of the Republic of Cuba

	<i>30 June 2017</i> <i>(unaudited)</i>	<i>31 December</i> <i>2016</i>
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)
<b>Term deposits with the Central Bank of the Republic of Cuba</b>	<b>—</b>	<b>—</b>

### 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.



## 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
<b>Derivative financial assets and liabilities at fair value through profit or loss</b>					
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	–
<b>Total derivative financial assets and liabilities at fair value through profit or loss</b>				<b>11,289</b>	<b>11,605</b>
<b>Derivative financial assets and liabilities designated as hedging instruments</b>					
Swaps	RON 298,300 thousand	EUR 67,068 thousand	4.45	–	1,267
<b>Total derivative financial assets and liabilities designated as hedging instruments</b>				<b>–</b>	<b>1,267</b>
<b>Derivative financial instruments</b>				<b>11,289</b>	<b>12,872</b>

## 7. Derivative financial instruments (continued)

	31 December 2016				
	Notional amount		Weighted average exchange rate	Fair value	
	Purchase	Sale		Assets	Liabilities
<b>Derivative financial assets and liabilities at fair value through profit or loss</b>					
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
<b>Total derivative financial assets and liabilities at fair value through profit or loss</b>				<b>14,362</b>	<b>10,087</b>
<b>Derivative financial assets and liabilities designated as hedging instruments</b>					
Swaps	RON 298,300 thousand	EUR 67,068 thousand	4.45	–	1,536
<b>Total derivative financial assets and liabilities designated as hedging instruments</b>				<b>–</b>	<b>1,536</b>
<b>Derivative financial instruments</b>				<b>14,362</b>	<b>11,623</b>

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.

## 8. Available-for-sale investment securities

Available-for-sale investment securities comprise:

	<i>30 June 2017</i> <i>(unaudited)</i>	<i>31 December</i> <i>2016</i>
<b>Owned by the Group</b>		
<b>Quoted debt securities</b>		
Government bonds:		
<i>Eurobonds issued by governments of member countries</i>	13,369	52,678
<i>Eurobonds issued by governments of other countries</i>	17,824	–
<b>Government bonds</b>	<b>31,193</b>	<b>52,678</b>
Corporate bonds		
<i>Credit rating AAA</i>	5,029	–
<i>Credit rating from AA- to AA+</i>	3,525	–
<i>Credit rating from A- to A+</i>	20,263	21,152
<i>Credit rating from BBB- to BBB+</i>	19,351	21,861
<i>Credit rating BB+</i>	51,632	57,579
<i>Credit rating B+</i>	1,024	17,575
<b>Corporate bonds</b>	<b>100,824</b>	<b>118,167</b>
<b>Total quoted debt securities</b>	<b>132,017</b>	<b>170,845</b>
<b>Quoted equity instruments</b>		
<i>Credit rating AA-</i>	248	–
<i>Credit rating A</i>	244	–
<i>Credit rating BBB-</i>	2,288	–
<i>Credit rating BB+</i>	207	–
<i>No credit rating</i>	4	4
<b>Total quoted equity instruments</b>	<b>2,991</b>	<b>4</b>
<b>Available-for-sale investment securities</b>	<b>135,008</b>	<b>170,849</b>
<b>Pledged under repurchase agreements</b>		
<b>Quoted debt securities</b>		
<i>Eurobonds issued by governments of member countries</i>	47,849	10,286
<i>Eurobonds issued by governments of other countries</i>	7,625	7,597
<b>Government bonds</b>	<b>55,474</b>	<b>17,883</b>
Corporate bonds		
<i>Credit rating AAA</i>	21,031	22,486
<i>Credit rating from AA- to AA+</i>	4,338	4,688
<i>Credit rating from A- to A+</i>	13,572	32,521
<i>Credit rating from BBB- to BBB+</i>	–	4,994
<i>Credit rating BB+</i>	4,252	15,886
<b>Corporate bonds</b>	<b>43,193</b>	<b>80,575</b>
<b>Total quoted available-for-sale debt securities pledged under repurchase agreements</b>	<b>98,667</b>	<b>98,458</b>

**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.

## 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:

	<i>30 June 2017 (unaudited)</i>	<i>31 December 2016</i>
<b>Trade financing loans</b>		
Russian Federation	29,256	953
Republic of Belarus	2,555	–
<b>Trade financing loans</b>	<b>31,811</b>	<b>953</b>
<b>Long-term loans to banks</b>		
Russian Federation	64,135	26,425
Mongolia	42,249	47,970
Socialist Republic of Vietnam	26,224	19,019
<b>Long-term loans to banks</b>	<b>132,608</b>	<b>93,414</b>
<b>Total loans to banks</b>	<b>164,419</b>	<b>94,367</b>
Less: allowance for loan impairment	(774)	–
<b>Loans to banks</b>	<b>163,645</b>	<b>94,367</b>

A summary of overdue loans as at 30 June 2017 and 31 December 2016 is presented below:

	<i>30 June 2017 (unaudited)</i>	<i>31 December 2016</i>
Loans with overdue principal and/or interest	15,478	–
Less: allowance for loan impairment	(774)	–
<b>Overdue loans to banks</b>	<b>14,704</b>	<b>–</b>

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:

	<i>Russian Federation</i>	<i>Total</i>
<b>At 1 January 2017</b>	–	–
Net charge for the period	774	774
<b>At 30 June 2017 (unaudited)</b>	<b>774</b>	<b>774</b>
<b>Individual impairment</b>	<b>774</b>	<b>774</b>
<b>Gross amount of loans to banks, individually determined to be impaired, before deducting any individually assessed impairment allowance</b>	<b>–</b>	<b>–</b>

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:

	<i>30 June 2017 (unaudited)</i>		<i>31 December 2016</i>	
	<i>Loans to banks</i>	<i>Share in the total loans, %</i>	<i>Loans to banks</i>	<i>Share in the total loans, %</i>
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
<b>Total loans to banks</b>	<b>163,645</b>	<b>100.0</b>	<b>94,367</b>	<b>100.0</b>

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

### Concentration of 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:

	<i>30 June 2017 (unaudited)</i>	<i>31 December 2016</i>
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
<b>Gross loans to customers</b>	<b>342,716</b>	<b>286,348</b>
Less: allowance for loan impairment	(5,550)	(17,312)
<b>Loans to customers</b>	<b>337,166</b>	<b>269,036</b>

A summary of overdue loans as at 30 June 2017 and 31 December 2016 is presented below:

	<i>30 June 2017 (unaudited)</i>	<i>31 December 2016</i>
Loans with overdue principal and/or interest	15,151	14,769
Less: allowance for loan impairment	(5,255)	(14,769)
<b>Overdue loans to customers</b>	<b>9,896</b>	<b>–</b>

## 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:

	<i>Slovak Republic</i>	<i>Republic of Bulgaria</i>	<i>Romania</i>	<i>Total</i>
<b>At 1 January 2017</b>	<b>8,103</b>	<b>6,955</b>	<b>2,254</b>	<b>17,312</b>
Net charge for the period	–	6	3,001	<b>3,007</b>
Write off against previously accrued allowance	(8,103)	(6,666)	–	<b>(14,769)</b>
<b>At 30 June 2017 (unaudited)</b>	<b>–</b>	<b>295</b>	<b>5,255</b>	<b>5,550</b>
<b>Individual impairment</b>	<b>–</b>	<b>–</b>	<b>5,255</b>	<b>5,255</b>
<b>Gross amount of loans to customers, individually determined to be impaired, before deducting any individually assessed impairment allowance</b>	<b>–</b>	<b>–</b>	<b>15,151</b>	<b>15,151</b>
	<i>Slovak Republic</i>	<i>Republic of Bulgaria</i>	<i>Romania</i>	<i>Total</i>
<b>At 1 January 2016</b>	<b>3,000</b>	<b>6,755</b>	–	<b>9,755</b>
Net charge for the period	5,103	200	2,254	<b>7,557</b>
<b>At 31 December 2016</b>	<b>8,103</b>	<b>6,955</b>	<b>2,254</b>	<b>17,312</b>
<b>Individual impairment</b>	<b>8,103</b>	<b>6,666</b>	–	<b>14,769</b>
<b>Gross amount of loans to customers, individually determined to be impaired, before deducting any individually assessed impairment allowance</b>	<b>8,103</b>	<b>6,666</b>	–	<b>14,769</b>

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:

	<i>30 June 2017 (unaudited)</i>		<i>31 December 2016</i>	
	<i>Loans net of allowance for impairment</i>	<i>Share in the total loans, %</i>	<i>Loans net of allowance for impairment</i>	<i>Share in the total loans, %</i>
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
<b>Total loans to customers</b>	<b>337,166</b>	<b>100.0</b>	<b>269,036</b>	<b>100.0</b>

## 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:

	<i>30 June 2017</i> <i>(unaudited)</i>	<i>31 December</i> <i>2016</i>
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
	<b>342,716</b>	<b>286,348</b>
Less: allowance for loan impairment	(5,550)	(17,312)
<b>Loans to customers</b>	<b>337,166</b>	<b>269,036</b>

## 11. Other assets and liabilities

Other assets comprise:

	<i>30 June 2017</i> <i>(unaudited)</i>	<i>31 December</i> <i>2016</i>
<b>Financial assets</b>		
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
	<b>1,925</b>	<b>3,344</b>
Less: allowance for impairment	(1,766)	(1,924)
<b>Total financial assets less allowance for impairment</b>	<b>159</b>	<b>1,420</b>
<b>Non-financial assets</b>		
Advances issued	791	–
Assets held for sale – property	89	89
Inventories – real estate	51	55
Other non-financial assets	714	755
	<b>1,645</b>	<b>899</b>
<b>Total non-financial assets</b>	<b>1,645</b>	<b>899</b>
<b>Total other assets</b>	<b>1,804</b>	<b>2,319</b>

## 11. Other assets and liabilities (continued)

The movements in allowance for impairment of other financial assets are as follows:

	<i>30 June 2017</i> <i>(unaudited)</i>	<i>31 December</i> <i>2016</i>
<b>Allowance at 1 January</b>	<b>1,924</b>	<b>1,633</b>
Reversal for the period	(27)	(67)
Change in allowance resulting from changes in exchange rates	(131)	358
<b>Allowance at the end of the period</b>	<b>1,766</b>	<b>1,924</b>

Other liabilities comprise:

	<i>30 June 2017</i> <i>(unaudited)</i>	<i>31 December</i> <i>2016</i>
<b>Financial liabilities</b>		
Other accounts payable on bank transactions	3,140	662
Other accounts payable on business operations	679	1,182
Other financial liabilities	11	19
<b>Total financial liabilities</b>	<b>3,830</b>	<b>1,863</b>
<b>Non-financial liabilities</b>		
Settlements with employees	4,395	3,647
Other non-financial liabilities	1,178	72
<b>Total non-financial liabilities</b>	<b>5,573</b>	<b>3,719</b>
<b>Total other liabilities</b>	<b>9,403</b>	<b>5,582</b>

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:

	<i>30 June 2017</i> <i>(unaudited)</i>	<i>31 December</i> <i>2016</i>
<b>Deposits from banks up to 1 year</b>		
Term deposits from banks and other financial institutions	45,060	52,856
<b>Total deposits from banks up to 1 year</b>	<b>45,060</b>	<b>52,856</b>
<b>Deposits from banks over 1 year</b>		
Repurchase agreements	63,295	66,069
<b>Total deposits from banks over 1 year</b>	<b>63,295</b>	<b>66,069</b>
<b>Total deposits from banks</b>	<b>108,355</b>	<b>118,925</b>

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

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

As at 30 June 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).



### 13. Long-term loans from banks

Long-term loans from banks comprise:

	<i>30 June 2017</i> <i>(unaudited)</i>	<i>31 December</i> <i>2016</i>
Syndicated loans	59,394	59,039
SSD debentures	12,866	–
Loans from banks	–	14,310
<b>Total long-term loans from banks</b>	<b>72,260</b>	<b>73,349</b>

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:

	<i>Interest rate,</i> <i>% p.a.</i>	<i>Maturity</i>	<i>30 June 2017</i> <i>(unaudited)</i>	<i>31 December</i> <i>2016</i>
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
<b>Total debt securities issued</b>			<b>397,720</b>	<b>272,528</b>

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.

## 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 signed 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:

	<i>Revaluation reserve for available-for- sale investment securities</i>	<i>Revaluation reserve for property and equipment</i>
<b>At 1 January 2016</b>	<b>(1,664)</b>	<b>31,453</b>
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)	–
<b>At 30 June 2016 (unaudited)</b>	<b>551</b>	<b>31,453</b>
<b>At 1 January 2017</b>	<b>(1,506)</b>	<b>12,945</b>
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)	–
<b>At 30 June 2017 (unaudited)</b>	<b>(1,235)</b>	<b>12,945</b>

#### *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.

## 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.

	<i>30 June 2017</i> <i>(unaudited)</i>	<i>31 December</i> <i>2016</i>
Undrawn loan facilities	217,597	33,103
Reimbursement obligations	25,142	9,898
Guarantees issued	16,454	4,934
<b>Total off-balance commitments</b>	<b>259,193</b>	<b>47,935</b>

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).

## 18. Interest income and interest expense

Net interest income comprises:

	<i>30 June 2017</i> <i>(unaudited)</i>	<i>30 June 2016</i> <i>(unaudited)</i>
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
<b>Interest income</b>	<b>16,147</b>	<b>16,237</b>
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)
<b>Interest expense</b>	<b>(14,364)</b>	<b>(13,184)</b>
<b>Net interest income</b>	<b>1,783</b>	<b>3,053</b>

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:

	<i>30 June 2017</i> <i>(unaudited)</i>	<i>30 June 2016</i> <i>(unaudited)</i>
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
<b>General and administrative expenses</b>	<b>9,061</b>	<b>8,174</b>

## 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.

## 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.

## 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:

<i>30 June 2017 (unaudited)</i>	<i>Loan amount</i>	<i>Allowance for impairment</i>	<i>Loan amount, including impairment</i>	<i>Impairment to loan amount ratio, %</i>
<b>Trade financing loans to banks without any signs of impairment identified</b>				
Standard loans				
- <i>Russian Federation</i>	29,256	–	29,256	–
- <i>Republic of Belarus</i>	2,555	–	2,555	–
<b>Long-term loans to banks without any signs of impairment identified</b>				
Standard loans				
- <i>Russian Federation</i>	48,657	–	48,657	–
- <i>Mongolia</i>	42,249	–	42,249	–
- <i>Socialist Republic of Vietnam</i>	26,224	–	26,224	–
Watch list loans				
- <i>Russian Federation</i>	15,478	(774)	14,704	5.0
	<b>164,419</b>	<b>(774)</b>	<b>163,645</b>	<b>0.5</b>
<b>Loans to customers without any signs of impairment identified</b>				
Standard loans				
- <i>Russian Federation</i>	69,702	–	69,702	–
- <i>Republic of Bulgaria</i>	53,867	–	53,867	–
- <i>Romania</i>	41,451	–	41,451	–
- <i>Republic of Ecuador</i>	36,273	–	36,273	–
- <i>Czech Republic</i>	35,038	–	35,038	–
- <i>Republic of Panama</i>	32,183	–	32,183	–
- <i>Hungary</i>	22,865	–	22,865	–
- <i>Slovak Republic</i>	20,016	–	20,016	–
- <i>USA</i>	5,526	–	5,526	–
- <i>Mongolia</i>	4,737	–	4,737	–
Renegotiated loans				
- <i>Republic of Bulgaria</i>	5,907	(295)	5,612	5.0
<b>Impaired loans</b>				
- <i>Romania</i>	15,151	(5,255)	9,896	34.7
	<b>342,716</b>	<b>(5,550)</b>	<b>337,166</b>	<b>1.6</b>
<b>Total loans</b>	<b>507,135</b>	<b>(6,324)</b>	<b>500,811</b>	<b>1.2</b>

## 20. Risk management (continued)

### Credit risk (continued)

<i>31 December 2016</i>	<i>Loan amount</i>	<i>Allowance for impairment</i>	<i>Loan amount, including impairment</i>	<i>Impairment to loan amount ratio, %</i>
<b>Trade financing loans to banks without any signs of impairment identified</b>				
Standard loans				
- <i>Russian Federation</i>	953	–	953	–
<b>Long-term loans to banks without any signs of impairment identified</b>				
Standard loans				
- <i>Mongolia</i>	47,970	–	47,970	–
- <i>Russian Federation</i>	26,425	–	26,425	–
- <i>Socialist Republic of Vietnam</i>	19,019	–	19,019	–
	<b>94,367</b>	<b>–</b>	<b>94,367</b>	<b>–</b>
<b>Loans to customers without any signs of impairment identified</b>				
Standard loans				
- <i>Russian Federation</i>	61,213	–	61,213	–
- <i>Republic of Bulgaria</i>	53,477	–	53,477	–
- <i>Republic of Ecuador</i>	39,570	–	39,570	–
- <i>Republic of Panama</i>	36,276	–	36,276	–
- <i>Romania</i>	25,205	–	25,205	–
- <i>Czech Republic</i>	22,930	–	22,930	–
- <i>USA</i>	6,108	–	6,108	–
- <i>Mongolia</i>	5,683	–	5,683	–
- <i>Slovak Republic</i>	308	–	308	–
Watch list loans				
- <i>Romania</i>	15,030	(2,254)	12,776	15.0
Renegotiated loans				
- <i>Republic of Bulgaria</i>	5,779	(289)	5,490	5.0
<b>Impaired loans</b>				
- <i>Slovak Republic</i>	8,103	(8,103)	–	100
- <i>Republic of Bulgaria</i>	6,666	(6,666)	–	100
	<b>286,348</b>	<b>(17,312)</b>	<b>269,036</b>	<b>6.0</b>
<b>Total loans</b>	<b>380,715</b>	<b>(17,312)</b>	<b>363,403</b>	<b>4.5</b>

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.

## 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.

	<i>30 June 2017</i> <i>(unaudited)</i>	<i>31 December</i> <i>2016</i>
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
<b>Off-balance credit-related commitments</b>	<b>259,193</b>	<b>47,935</b>

*(intentionally blank)*



## 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
<b>Assets</b>															
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
<b>Total assets</b>	<b>304,142</b>	<b>43,654</b>	<b>182,108</b>	<b>264,318</b>	<b>85,680</b>	<b>2,991</b>	<b>24,600</b>	<b>907,493</b>	<b>280,366</b>	<b>13,816</b>	<b>119,072</b>	<b>306,036</b>	<b>67,570</b>	<b>–</b>	<b>786,860</b>
<b>Liabilities</b>															
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)
<b>Total liabilities</b>	<b>(52,685)</b>	<b>(2,258)</b>	<b>(182,526)</b>	<b>(359,995)</b>	<b>(6,868)</b>	<b>–</b>	<b>–</b>	<b>(604,332)</b>	<b>(60,204)</b>	<b>–</b>	<b>(169,433)</b>	<b>(257,869)</b>	<b>–</b>	<b>–</b>	<b>(487,506)</b>
<b>Net position</b>	<b>251,457</b>	<b>41,396</b>	<b>(418)</b>	<b>(95,677)</b>	<b>78,812</b>	<b>2,991</b>	<b>24,600</b>	<b>303,161</b>	<b>220,162</b>	<b>13,816</b>	<b>(50,361)</b>	<b>48,167</b>	<b>67,570</b>	<b>–</b>	<b>299,354</b>
<b>Accumulated net position</b>	<b>251,457</b>	<b>292,853</b>	<b>292,435</b>	<b>196,758</b>	<b>275,570</b>	<b>278,561</b>	<b>303,161</b>		<b>220,162</b>	<b>233,978</b>	<b>183,617</b>	<b>231,784</b>	<b>299,354</b>	<b>299,354</b>	

## 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:

	<i>30 June 2017</i> <i>(unaudited)</i>	<i>31 December</i> <i>2016</i>
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.

## 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
<b>Non-derivative financial Assets</b>										
Cash and cash equivalents	72,388	21,768	11,173	889	<b>106,218</b>	66,125	19,969	6,778	159	<b>93,031</b>
Deposits with banks and other financial institutions	55,341	–	–	–	<b>55,341</b>	40,568	4,769	–	–	<b>45,337</b>
Available-for-sale investment securities	139,134	90,123	4,418	–	<b>233,675</b>	208,628	53,070	7,609	–	<b>269,307</b>
Loans to banks	98,126	65,519	–	–	<b>163,645</b>	53,574	40,793	–	–	<b>94,367</b>
Loans to customers	197,952	100,127	–	39,087	<b>337,166</b>	131,906	137,130	–	–	<b>269,036</b>
Other financial assets	72	1	84	2	<b>159</b>	225	14	927	254	<b>1,420</b>
<b>Total non-derivative financial assets</b>	<b>563,013</b>	<b>277,538</b>	<b>15,675</b>	<b>39,978</b>	<b>896,204</b>	<b>501,026</b>	<b>255,745</b>	<b>15,314</b>	<b>413</b>	<b>772,498</b>
<b>Liabilities</b>										
Deposits from banks and other financial institutions	(77,739)	(30,616)	–	–	<b>(108,355)</b>	(36,981)	(81,944)	–	–	<b>(118,925)</b>
Current customer accounts	(9,177)	(118)	–	–	<b>(9,295)</b>	(9,089)	(129)	–	–	<b>(9,218)</b>
Long-term loans from banks	(72,260)	–	–	–	<b>(72,260)</b>	(59,039)	(14,310)	–	–	<b>(73,349)</b>
Debt securities issued	(30,660)	–	(274,458)	(92,602)	<b>(397,720)</b>	(30,046)	–	(151,515)	(90,967)	<b>(272,528)</b>
Other financial liabilities	(3,112)	(30)	(572)	(116)	<b>(3,830)</b>	(529)	(49)	(1,106)	(179)	<b>(1,863)</b>
<b>Total non-derivative financial liabilities</b>	<b>(192,948)</b>	<b>(30,764)</b>	<b>(275,030)</b>	<b>(92,718)</b>	<b>(591,460)</b>	<b>(135,684)</b>	<b>(96,432)</b>	<b>(152,621)</b>	<b>(91,146)</b>	<b>(475,883)</b>
<b>Net balance sheet position (excluding derivative financial instruments)</b>	<b>370,065</b>	<b>246,774</b>	<b>(259,355)</b>	<b>(52,740)</b>	<b>304,744</b>	<b>365,342</b>	<b>159,313</b>	<b>(137,307)</b>	<b>(90,733)</b>	<b>296,615</b>
<b>Derivative financial instruments</b>										
Claims	227,181	–	281,409	91,542	<b>600,132</b>	125,117	–	145,832	90,318	<b>361,267</b>
Liabilities	(330,385)	(216,365)	(15,278)	(39,687)	<b>(601,715)</b>	(224,955)	(124,785)	(8,788)	–	<b>(358,528)</b>
<b>Net balance sheet position including derivative financial instruments</b>	<b>266,861</b>	<b>30,409</b>	<b>6,776</b>	<b>(885)</b>	<b>303,161</b>	<b>265,504</b>	<b>34,528</b>	<b>(263)</b>	<b>(415)</b>	<b>299,354</b>

## 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.

	<i>Level 1</i> <i>30 June 2017</i> <i>(unaudited)</i>	<i>Level 2</i> <i>30 June 2017</i> <i>(unaudited)</i>	<i>Level 3</i> <i>30 June 2017</i> <i>(unaudited)</i>	<i>Total</i> <i>30 June 2017</i> <i>(unaudited)</i>
<b>Assets measured at fair value</b>				
Derivative financial assets	–	11,289	–	<b>11,289</b>
Government bonds of countries	86,667	–	–	<b>86,667</b>
Corporate bonds	139,599	4,418	–	<b>144,017</b>
Quoted equity instruments	2,987	4	–	<b>2,991</b>
Investment property	–	–	21,860	<b>21,860</b>
Property and equipment – buildings	–	–	67,158	<b>67,158</b>
<b>Liabilities measured at fair value</b>				
Derivative financial liabilities	–	12,872	–	<b>12,872</b>
<b>Assets for which fair values are disclosed</b>				
Cash and cash equivalents	236	105,982	–	<b>106,218</b>
Deposits with banks and other financial institutions	–	–	55,341	<b>55,341</b>
Loans to banks	–	–	162,267	<b>162,267</b>
Loans to customers	–	–	338,052	<b>338,052</b>
<b>Liabilities for which fair values are disclosed</b>				
Deposits from banks and other financial institutions	–	–	108,355	<b>108,355</b>
Current customer accounts	–	–	9,295	<b>9,295</b>
Long-term loans from banks	–	–	72,260	<b>72,260</b>
Debt securities issued	–	403,323	–	<b>403,323</b>

## 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:

	<i>Level 1</i> <i>31 December</i> <i>2016</i>	<i>Level 2</i> <i>31 December</i> <i>2016</i>	<i>Level 3</i> <i>31 December</i> <i>2016</i>	<i>Total</i> <i>31 December</i> <i>2016</i>
<b>Assets measured at fair value</b>				
Derivative financial assets	–	14,362	–	<b>14,362</b>
Government bonds of countries	70,561	–	–	<b>70,561</b>
Corporate bonds	194,003	4,739	–	<b>198,742</b>
Quoted equity instruments	–	4	–	<b>4</b>
Investment property	–	–	21,840	<b>21,840</b>
Property and equipment – buildings	–	–	67,527	<b>67,527</b>
<b>Liabilities measured at fair value</b>				
Derivative financial liabilities	–	11,623	–	<b>11,623</b>
<b>Assets for which fair values are disclosed</b>				
Cash and cash equivalents	104	92,927	–	<b>93,031</b>
Deposits with banks and other financial institutions	–	–	45,337	<b>45,337</b>
Loans to banks	–	–	88,558	<b>88,558</b>
Loans to customers	–	–	270,243	<b>270,243</b>
<b>Liabilities for which fair values are disclosed</b>				
Deposits from banks and other financial institutions	–	–	118,925	<b>118,925</b>
Current customer accounts	–	–	9,218	<b>9,218</b>
Long-term loans from banks	–	–	73,349	<b>73,349</b>
Debt securities issued	–	279,181	–	<b>279,181</b>

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

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

	<i>Carrying amount</i> <i>30 June 2017</i> <i>(unaudited)</i>	<i>Fair value</i> <i>30 June 2017</i> <i>(unaudited)</i>	<i>Unrecognized gain/(loss)</i> <i>30 June 2017</i> <i>(unaudited)</i>	<i>Carrying amount</i> <i>31 December</i> <i>2016</i>	<i>Fair value</i> <i>31 December</i> <i>2016</i>	<i>Unrecognized gain/(loss)</i> <i>31 December</i> <i>2016</i>
<b>Financial assets</b>						
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
<b>Financial liabilities</b>						
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)
<b>Total unrecognized change in unrealized fair value</b>			<b>(6,095)</b>			<b>(11,255)</b>

## 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.

*(intentionally blank)*

## 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:

<i>30 June 2017 (unaudited)</i>	<i>Credit investment activity</i>	<i>Treasury</i>	<i>Other operations</i>	<i>Total</i>
<b>Income</b>				
<i>External customers</i>				
Interest income	11,390	4,738	19	<b>16,147</b>
Fee and commission income	302	–	–	<b>302</b>
Net gains from dealing in foreign currencies and operations with derivatives	–	12,520	–	<b>12,520</b>
Net gains from revaluation of hedging instruments	–	65	–	<b>65</b>
Net gains from available-for-sale investment securities	–	4,553	–	<b>4,553</b>
Income from lease of investment property	–	–	2,049	<b>2,049</b>
Reversal of allowance for impairment of other assets	–	–	27	<b>27</b>
Other segment income	2	–	83	<b>85</b>
<b>Total income</b>	<b>11,694</b>	<b>21,876</b>	<b>2,178</b>	<b>35,748</b>
Interest expense	(7,313)	(7,051)	–	<b>(14,364)</b>
Fee and commission expense	(9)	(60)	(2)	<b>(71)</b>
Net loss from revaluation of derivative financial instruments	–	(4,591)	–	<b>(4,591)</b>
Net (losses)/gains from revaluation of assets and liabilities in foreign currencies	–	(955)	11	<b>(944)</b>
Allowance for impairment of financial assets	(3,781)	–	–	<b>(3,781)</b>
Other segment expenses	(89)	(83)	(477)	<b>(649)</b>
<b>Segment results</b>	<b>502</b>	<b>9,136</b>	<b>1,710</b>	<b>11,348</b>
Other unallocated expenses				<b>(9,061)</b>
<b>Profit for the period</b>				<b>2,287</b>
Development portfolio	490,923	65,631	–	<b>556,554</b>
Other segment assets	9,896	340,413	95,806	<b>446,115</b>
<b>Total segment assets</b>	<b>500,819</b>	<b>406,044</b>	<b>95,806</b>	<b>1,002,669</b>
<b>Total segment liabilities</b>	<b>276,007</b>	<b>324,495</b>	<b>9,403</b>	<b>609,905</b>
<b>Other segment information</b>				
Capital expenditures	–	–	70	<b>70</b>

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.

## 22. Segment information (continued)

<i>30 June 2016 (unaudited)</i>	<i>Credit investment activity</i>	<i>Treasury</i>	<i>Other operations</i>	<i>Total</i>
<b>Income</b>				
<i>External customers</i>				
Interest income	9,677	6,560	–	<b>16,237</b>
Fee and commission income	369	–	156	<b>525</b>
Net gains from trading in foreign currencies	–	11,026	–	<b>11,026</b>
Net gains from revaluation of derivative financial instruments	–	14,198	–	<b>14,198</b>
Net gains from available-for-sale investment securities	–	3,186	–	<b>3,186</b>
Income from lease of investment property	–	–	1,782	<b>1,782</b>
Net gains from held-to-maturity investment securities	–	251	–	<b>251</b>
Reversal of allowance for impairment of financial assets	–	–	89	<b>89</b>
Reversal of allowance for impairment of other assets	–	–	14	<b>14</b>
Other segment income	102	–	274	<b>376</b>
<b>Total income</b>	<b>10,148</b>	<b>35,221</b>	<b>2,315</b>	<b>47,684</b>
Interest expense	(5,288)	(7,896)	–	<b>(13,184)</b>
Fee and commission expense	(2)	(60)	(4)	<b>(66)</b>
Net losses from revaluation of assets and liabilities in foreign currencies	–	(20,996)	(50)	<b>(21,046)</b>
Other segment expenses	–	–	(184)	<b>(184)</b>
<b>Segment results</b>	<b>4,858</b>	<b>6,269</b>	<b>2,077</b>	<b>13,204</b>
Other unallocated expenses				<b>(8,174)</b>
<b>Profit for the period</b>				<b>5,030</b>
Development portfolio	411,277	–	–	<b>411,277</b>
Other segment assets	5,103	403,401	101,836	<b>510,340</b>
<b>Total segment assets</b>	<b>416,380</b>	<b>403,401</b>	<b>101,836</b>	<b>921,617</b>
<b>Total segment liabilities</b>	<b>141,326</b>	<b>361,182</b>	<b>4,125</b>	<b>506,633</b>
<b>Other segment information</b>				
Capital expenditures	–	–	566	<b>566</b>

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:

	<i>30 June 2017 (unaudited)</i>				<i>30 June 2016 (unaudited)</i>			
	<i>Russia</i>	<i>Other member countries</i>	<i>Other countries</i>	<i>Total</i>	<i>Russia</i>	<i>Other member countries</i>	<i>Other countries</i>	<i>Total</i>
Interest income	4,135	7,035	4,977	<b>16,147</b>	4,677	7,961	3,599	<b>16,237</b>
Income from lease of investment property	1,942	107	–	<b>2,049</b>	1,782	–	–	<b>1,782</b>
Non-current assets	79,207	14,324	–	<b>93,531</b>	100,101	–	–	<b>100,101</b>

Non-current assets include property and equipment, and investment property.



## 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:

	<i>30 June 2017 (unaudited)</i>									
	<i>Russian Federation</i>	<i>Republic of Bulgaria</i>	<i>Romania</i>	<i>Slovak Republic</i>	<i>Mongolia</i>	<i>Socialist Republic of Vietnam</i>	<i>Czech Republic</i>	<i>Hungary</i>	<i>Other countries</i>	<i>Total</i>
<b>Assets</b>										
Cash and cash equivalents	11,275	791	399	43	15,313	–	–	–	78,397	<b>106,218</b>
Deposits with banks and other financial institutions	4,680	–	–	–	–	–	–	–	50,661	<b>55,341</b>
Derivative financial instruments	3,577	–	–	–	–	–	–	–	7,712	<b>11,289</b>
Available-for-sale investment securities	17,336	48,971	37,875	9,974	11,293	2,076	–	1,024	105,126	<b>233,675</b>
Loans to banks less allowance for impairment	92,617	–	–	–	42,249	26,224	–	–	2,555	<b>163,645</b>
Loans to customers less allowance for impairment	69,702	59,479	51,347	20,016	4,737	–	35,038	22,865	73,982	<b>337,166</b>
Other financial assets	134	7	–	6	1	–	–	2	9	<b>159</b>
<b>Assets</b>	<b>199,321</b>	<b>109,248</b>	<b>89,621</b>	<b>30,039</b>	<b>73,593</b>	<b>28,300</b>	<b>35,038</b>	<b>23,891</b>	<b>318,442</b>	<b>907,493</b>
<b>Liabilities</b>										
Deposits from banks and other financial institutions	60	–	–	7,507	–	–	–	–	100,788	<b>108,355</b>
Derivative financial instruments	5,799	–	597	–	–	–	–	–	6,476	<b>12,872</b>
Long-term loans from banks	9,899	7,425	–	–	–	–	–	7,424	47,512	<b>72,260</b>
Debt securities issued	275,090	–	91,970	30,660	–	–	–	–	–	<b>397,720</b>
Other financial liabilities	759	–	–	11	–	–	3,000	–	60	<b>3,830</b>
<b>Liabilities</b>	<b>291,607</b>	<b>7,425</b>	<b>92,567</b>	<b>38,178</b>	<b>–</b>	<b>–</b>	<b>3,000</b>	<b>7,424</b>	<b>154,836</b>	<b>595,037</b>

## 22. Segment information (continued)

### Geographical information (continued)

31 December 2016

	<i>Russian Federation</i>	<i>Republic of Bulgaria</i>	<i>Romania</i>	<i>Slovak Republic</i>	<i>Mongolia</i>	<i>Socialist Republic of Vietnam</i>	<i>Czech Republic</i>	<i>Hungary</i>	<i>Other countries</i>	<i>Total</i>
<b>Assets</b>										
Cash and cash equivalents	16,398	808	26	38	–	–	–	–	75,761	<b>93,031</b>
Deposits with banks and other financial institutions	7,159	–	–	–	–	–	–	–	38,178	<b>45,337</b>
Derivative financial instruments	2,980	–	–	–	–	–	–	–	11,382	<b>14,362</b>
Available-for-sale investment securities	44,688	49,482	36,713	10,286	3,475	–	–	–	124,663	<b>269,307</b>
Loans to banks less allowance for impairment	27,378	–	–	–	–	47,970	19,019	–	–	<b>94,367</b>
Loans to customers less allowance for impairment	61,213	58,967	37,981	308	–	5,683	–	22,930	81,954	<b>269,036</b>
Other financial assets	1,407	8	–	1	–	–	–	–	4	<b>1,420</b>
<b>Assets</b>	<b>161,223</b>	<b>109,265</b>	<b>74,720</b>	<b>10,633</b>	<b>3,475</b>	<b>53,653</b>	<b>19,019</b>	<b>22,930</b>	<b>331,942</b>	<b>786,860</b>
<b>Liabilities</b>										
Deposits from banks and other financial institutions	–	–	–	7,508	–	–	–	–	111,417	<b>118,925</b>
Derivative financial instruments	4,528	–	633	–	–	–	–	–	6,462	<b>11,623</b>
Long-term loans from banks	9,840	21,690	–	–	7,380	–	–	–	34,439	<b>73,349</b>
Debt securities issued	151,434	–	90,967	30,127	–	–	–	–	–	<b>272,528</b>
Other financial liabilities	1,805	–	–	19	–	–	–	–	39	<b>1,863</b>
<b>Liabilities</b>	<b>167,607</b>	<b>21,690</b>	<b>91,600</b>	<b>37,654</b>	<b>7,380</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>152,357</b>	<b>478,288</b>

Other countries include non-member countries.

## 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:

		<i>30 June 2017 (unaudited)</i>	<i>31 December 2016</i>
		<i>Carrying amount</i>	<i>Carrying amount</i>
		<i>Related party</i>	
<b>Consolidated statement of financial position</b>			
Current customer accounts	Key management personnel	1,839	1,783
Other non-financial liabilities	Key management personnel	513	416
		<i>30 June 2017 (unaudited)</i>	<i>30 June 2016 (unaudited)</i>
		<i>Income/ (expense)</i>	<i>Income/ (expense)</i>
		<i>Related party</i>	
<b>Consolidated income statement</b>			
Interest expense on current customer accounts	Key management personnel	(27)	(34)
<b>Net interest expense after allowance for loan impairment</b>		<b>(27)</b>	<b>(34)</b>
<b>Operating losses</b>		<b>(27)</b>	<b>(34)</b>
Employee benefits	Key management personnel	(669)	(572)
Compensation for travel expenses and medical insurance	Key management personnel	(32)	(55)
<b>Operating expenses</b>		<b>(701)</b>	<b>(627)</b>
<b>Net loss for the period</b>		<b>(728)</b>	<b>(661)</b>

## 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%).

## 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.

	<i>30 June 2017</i> <i>(unaudited)</i>	<i>31 December</i> <i>2016</i>
<b>Capital</b>		
Tier 1 capital	378,836	378,034
Tier 2 capital	11,709	11,439
<b>Total regulatory capital</b>	<b>390,545</b>	<b>389,473</b>
<b>Risk-weighted assets</b>		
Credit risk	697,229	482,693
Market risk	179,730	186,588
Operational risk	48,623	57,999
<b>Total risk weighted assets</b>	<b>925,582</b>	<b>727,280</b>
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)*

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