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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Совершенствуя бизнес,
улучшаем мир

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Report on Review of Interim Financial Information

To the Council of International Investment Bank

Introduction

We have reviewed the accompanying interim condensed separate financial statements of International Investment Bank, which comprise the interim separate statement of financial position as at 30 June 2017, the interim separate income statement, interim separate statement of comprehensive income, interim separate statement of changes in equity and interim separate statement of cash flows for the six-month period then ended, and selected explanatory notes (interim financial information). Management of International Investment Bank is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

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Conclusion

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

O.V. Youshenkov
Partner
Ernst & Young Vneshaudit LLC

20 July 2017

Details of the entity

Name: International Investment Bank
Bank operates on the basis of the Agreement on the Establishment of the International Investment Bank dated 10 July 1970, registered in the UN Secretariat on 1 December 1971 under No. 11417.
Address: Russia 107078, Moscow, Mashi Poryvaevoy str., 7.

Details of the auditor

Name: Ernst & Young Vneshaudit LLC
Record made in the State Register of Legal Entities on 4 February 2016, State Registration Number 1167746123478.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young Vneshaudit LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young Vneshaudit LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050953.

INTERIM SEPARATE STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

(Thousands of euros)

	Note	30 June 2017 (unaudited)	31 December 2016
Assets			
Cash and cash equivalents	5	106,142	93,016
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 in subsidiary	2	145	145
Investment property		21,860	21,840
Property, equipment and intangible assets		71,668	71,841
Other assets	11	1,703	2,165
Total assets		**1,002,634**	**881,416**
Liabilities			
Due to banks and other financial institutions	12	108,355	118,925
Derivative financial liabilities	7	12,872	11,623
Current customer accounts		9,295	9,218
Long-term loans of banks	13	72,260	73,349
Debt securities issued	14	397,720	272,528
Other liabilities	11	9,437	5,654
Total liabilities		**609,939**	**491,297**
Equity	15		
Subscribed capital		1,300,000	1,300,000
Callable capital		(986,947)	(986,947)
Paid-in capital		**313,053**	**313,053**
Revaluation reserve for available-for-sale investment securities		(1,235)	(1,506)
Revaluation reserve for property and equipment		12,945	12,945
Retained earnings less net income for the period		65,627	64,811
Net income for the period		2,305	816
Total equity		**392,695**	**390,119**
Total equity and liabilities		**1,002,634**	**881,416**

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

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 separate financial statements.

INTERIM SEPARATE INCOME STATEMENT

For the six months ended 30 June 2017

(Thousands of euros)

	Note	*For the six months ended 30 June (unaudited)* 2017	2016
Interest income	18	16,142	16,237
Interest expense	18	(14,364)	(13,185)
Net interest income		**1,778**	**3,052**
Allowance for loan impairment	9, 10	(3,781)	89
Net interest (expense)/income after allowance for loan impairment		**(2,003)**	**3,141**
Fee and commission income		302	525
Fee and commission expense		(148)	(137)
Net fee and commission income		**154**	**388**
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)	(21,028)
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		39	495
Net non-interest income		**13,691**	**9,659**
Operating income		**11,842**	**13,188**
Reversal of allowance for impairment of other assets	11	27	14
General and administrative expenses	19	(8,915)	(7,984)
Other expenses		(649)	(184)
Operating expenses		**(9,537)**	**(8,154)**
Net income for the period		**2,305**	**5,034**

The accompanying notes 1-24 are an integral part of these interim condensed separate financial statements.

INTERIM SEPARATE STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

(Thousands of euros)

		For the six months ended 30 June (unaudited)	
	Note	***2017***	***2016***
Net income for the period		**2,305**	**5,034**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Change in unrealized revaluation of available-for-sale investment securities	15	271	2,215
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**271**	**2,215**
Other comprehensive income		**271**	**2,215**
Total income for the period		**2,576**	**7,249**

The accompanying notes 1-24 are an integral part of these interim condensed separate financial statements.

INTERIM SEPARATE STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

(Thousands of euros)

	Subscribed capital	*Callable capital*	*Revaluation reserve for available-for-sale investment securities*	*Revaluation reserve for property and equipment*	*Retained earnings*	*Total equity*
At 31 December 2015	**1,300,000**	**(996,947)**	**(1,664)**	**31,453**	**64,811**	**397,653**
Profit for the period	–	–	–	–	5,034	**5,034**
Other comprehensive income for the period	–	–	2,215	–	–	**2,215**
Total comprehensive income	**–**	**–**	**2,215**	**–**	**5,034**	**7,249**
Contributions to capital (Note 15)	–	10,000	–	–	–	**10,000**
At 30 June 2016 (unaudited)	**1,300,000**	**(986,947)**	**551**	**31,453**	**69,845**	**414,902**
At 31 December 2016	**1,300,000**	**(986,947)**	**(1,506)**	**12,945**	**65,627**	**390,119**
Profit for the period	–	–	–	–	2,305	**2,305**
Other comprehensive income for the period	–	–	271	–	–	**271**
Total comprehensive income	**–**	**–**	**271**	**–**	**2,305**	**2,576**
At 30 June 2017 (unaudited)	**1,300,000**	**(986,947)**	**(1,235)**	**12,945**	**67,932**	**392,695**

The accompanying notes 1-24 are an integral part of these interim condensed separate financial statements.

INTERIM SEPARATE STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

(Thousands of euros)

	Note	For the six months ended 30 June (unaudited) 2017	2016
Cash flows from operating activities			
Interest, fees and commissions received		11,636	11,600
Interest, fees and commissions paid		(2,174)	(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		(7,425)	(4,579)
Other operating expenses on banking operations		(59)	(5)
Cash flows from operating activities before changes in operating assets and liabilities		**17,078**	**18,330**
Net (increase)/decrease in operating assets			
Deposits with banks and other financial institutions		(16,973)	29,083
Loans to banks		(69,609)	16,642
Loans to customers		(82,012)	(129,716)
Other assets		620	(501)
Net (decrease)/increase in operating liabilities			
Due to banks and other financial institutions		(4,037)	57,898
Current customer accounts		(543)	2,211
Other liabilities		4,397	227
Net cash flows from operating activities		**(151,079)**	**(5,826)**
Cash flows from investing activities			
Proceeds from decapitalization of subsidiary		–	621
Interest received		2,935	7,714
Purchase of available-for-sale investment securities		(193,404)	(308,150)
Proceeds from sale and redemption of available-for-sale investment securities		227,954	267,412
Proceeds from redemption of held-to-maturity securities		–	3,478
Investments in investment property		(20)	–
Purchase of property, equipment and intangible assets		(836)	(757)
Proceeds from sale of property, equipment and intangible assets		3	–
Net cash flows from investing activities		**36,632**	**(29,682)**
Cash flows from financing activities			
Interest paid		(10,533)	(10,978)
Long-term interbank financing raised		13,000	60,000
Long-term interbank financing repaid		(13,451)	(29,569)
Placement of bonds		205,194	–
Redemption and repurchase of bonds		(62,858)	–
Contributions to capital		–	10,000
Net cash flows from financing activities		**131,352**	**29,453**
Effect of exchange rate changes on cash and cash equivalents		(3,779)	621
Net decrease in cash and cash equivalents		**13,126**	**(5,434)**
Cash and cash equivalents, beginning		**93,016**	**59,434**
Cash and cash equivalents, ending	5	**106,142**	**54,000**

The accompanying notes 1-24 are an integral part of these interim condensed separate financial statements.

(Thousands of euros)

1. Principal activities

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 Mashi Poryvaevoi St., Moscow, Russia, and the European regional office in Bratislava (Eurovea Central 1, Pribinova 4, Bratislava, 81109, Slovak Republic).

On 31 July 2014, the EU Council imposed sectoral sanctions against Russia. The preamble of the Decision of the EU Council of 31 July 2014 (paragraph 9) and Council Regulation (EU) No 833/2014 of 31 July 2014 (paragraph 5), which was developed based on the Decision, emphasize that the sanctions do not cover Russia-based institutions with international status established by intergovernmental agreements in which Russia is one of the parties. Therefore, the International Investment Bank is not subject to the restrictive measures.

The Bank continues to expand its operations despite the ongoing market volatility in member countries:

- The Banks winds up the introduction of changes to its constituent documents and implementation of the three-level corporate governance structure. The Protocol on Introducing Changes to the Agreement on the Establishment of the International Investment Bank and the Statutes (hereinafter, the "Protocol") signed at the end of 2015 is at the stage of ratification (internal state procedures) by member countries of the Bank. The Protocol will enter into force upon completion of those ratification procedures. As at 30 June 2017, the Protocol was ratified by Hungary, Vietnam, Romania, Bulgaria, Russia and Cuba (6 countries out of 9).
- At the 107th meeting of the Bank's Council (Bucharest, Romania, June 2017), member countries unanimously approved the Bank's mid-term development strategy for 2018-2022.
- In May 2017, Moody's Investors Service upgraded its outlook on the Bank's credit rating from stable to positive and confirmed its issuer credit rating and debt rating at Baa1. Also, the Bank is assigned the following investment grade ratings: BBB with a stable outlook by Standard & Poor's; BBB with a stable outlook by Fitch Ratings (upgraded in December 2016); A (stable outlook) by Dagong Global Credit Rating.
- The Bank entered capital markets in Western Europe for the first time in April 2017 with a debut issue of SSD debentures (Schuldscheindarlehen) – a traditional loan instrument of the German market.
- In 2017, the Bank's trade financing program was recognized the best among other IFOs' programs by Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), and the Bank was the winner of ADFIAP Awards 2017 in the Trade Development category.
- The Bank and chambers of commerce and industry (the "CCIs") of the member countries signed a multilateral Memorandum on Cooperation at an international business forum timed to coincide with the 107th meeting of the Bank's Council (Bucharest, Romania). The Memorandum established a framework for creating a "Project Exchange", i.e. an integration platform under the aegis of the Bank aimed at facilitating development of investment activity both in member countries and in other countries. For this purpose, CCIs of other interested countries can also accede to the Memorandum in accordance with its provisions.

(Thousands of euros)

1. Principal activities (continued)

Member countries of the Bank

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

Member countries	*30 June 2017, % (unaudited)*	*31 December 2016, %*
Russian Federation	47.923	47.923
Republic of Bulgaria	13.481	13.481
Hungary	12.777	12.777
Czech Republic	9.703	9.703
Slovak Republic	6.862	6.862
Romania	5.895	5.895
Republic of Cuba	1.713	1.713
Socialist Republic of Vietnam	1.172	1.172
Mongolia	0.474	0.474
	100.000	**100.000**

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

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

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

Business environment in the member countries

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

The accompanying interim condensed separate 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 Bank. Future evolution of the conditions in which the Bank operates may differ from the assessment made by the management for the purposes of these interim condensed separate financial statements.

2. Basis of preparation

General

These interim condensed separate 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*, approved by the International Accounting Standards Board.

The interim condensed separate financial statements do not include all the information and disclosures required in the annual separate financial statements, and should be read in conjunction with the Bank's annual separate 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 Bank's activities in Russia, in particular, for the property trust of the Bank) as at 30 June 2017.

Investment in subsidiary is measured at initial cost. The management of the Bank perform the assessment of net assets of the subsidiary on a regular basis and create an allowance if necessary.

(Thousands of euros)

2. Basis of preparation (continued)

Basis of measurement

These interim condensed separate 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 Bank's functional and presentation currency as it reflects the economic substance of the underlying operations conducted by the Bank and circumstances affecting its operations, because most financial assets and financial liabilities as well as income and expenses of the Bank are denominated in EUR.

These interim condensed separate 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 separate financial statements are consistent with those followed in the preparation of the Bank's annual separate financial statements for the year ended 31 December 2016, except for the adoption of new standards effective as at 1 January 2017. The Bank 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 apply for the first time in 2017, they do not have a material effect on the interim condensed separate financial statements of the Bank. 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 Bank is not required to provide additional disclosures in its condensed interim separate financial statements, but will disclose additional information in its annual separate 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 Bank's financial position and performance.

(Thousands of euros)

3. Changes in accounting policies (continued)

Annual improvements cycle – 2014-2016

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The amendment has no effect on the Bank's interim condensed separate financial statements.

4. Significant accounting judgments and estimates

Assumptions and estimation uncertainty

In the process of applying the Bank'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 separate financial statements, which have the effect on the amounts recognized in the interim condensed separate 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 judgments and estimates are as follows:

Assumptions and estimates adopted by management of the Bank in the process of applying the accounting policies are consistent with those described in the separate financial statements for the year ended 31 December 2016.

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

- Note 7 – Derivative financial instruments.
- Note 8 – Available-for-sale investment securities.
- Note 9 – Loans to banks.
- Note 10 – Loans to customers.
- Note 16 – Contingencies and loan commitments.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2017 (unaudited)	***31 December 2016***
Cash on hand	**234**	**89**
Nostro accounts with banks and other financial institutions:		
Credit rating from A- to A+	65,761	62,548
Credit rating from BBB- to BBB+	7,130	4,526
Credit rating from BB- to BB+	446	551
Total Nostro accounts with banks and other financial institutions	**73,337**	**67,625**
Short-term deposits with banks:		
Term deposits with banks		
Credit rating from BBB- to BBB+	10,258	–
Credit rating from BB- to BB+	–	25,302
Credit rating from B- to B+	22,313	–
Total short-term deposits with banks	**32,571**	**25,302**
Cash and cash equivalents	**106,142**	**93,016**

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

(Thousands of euros)

6. Deposits with banks and other financial institutions

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

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

Amounts due from the Central Bank of the Republic of Cuba

	30 June 2017 (unaudited)	*31 December 2016*
Term deposits with the Central Bank of the Republic of Cuba without credit rating	34,967	34,967
Less: allowance for impairment	(34,967)	(34,967)
Term deposits with the Central Bank of the Republic of Cuba	**–**	**–**

Concentration of deposits with banks and other financial institutions

As at 30 June 2017, the Bank had three counterparties (31 December 2016: three) accounting for over 10% of the Bank’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 Bank performs the operations with currency and other derivative financial instruments which are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions. Derivative financial instruments have either potentially favorable terms (and are assets) or potentially unfavorable conditions (and are liabilities) as a result of fluctuations in the exchange rates or other variable factors associated with these instruments. The fair value of derivative financial instruments may vary significantly depending on the potentially favorable or unfavorable conditions.

(Thousands of euros)

7. Derivative financial instruments (continued)

The table below shows the fair value of derivative financial instruments as at 30 June 2017 and 31 December 2016 and notional amounts of term contracts for the purchase and sale of foreign currency specifying weighted average contractual exchange rates.

	30 June 2017 (unaudited)				
	Notional amount		***Weighted average exchange rate***	***Fair value***	
	Purchase	***Sale***		***Assets***	***Liabilities***
Derivative financial assets and liabilities at fair value through profit or loss					
Swaps	EUR 170,500 thousand	USD 189,376 thousand	1.11	5,322	–
	EUR 16,500 thousand	RUB 1,051,741 thousand	63.74	1,222	–
	EUR 23,278 thousand	HUF 7,160,000 thousand	307.59	111	–
	EUR 16,514 thousand	RON 75,000 thousand	0.22	13	–
	RUB 15,417,998 thousand	EUR 236,382 thousand	65.36	2,616	9,442
	RON 110,300 thousand	EUR 24,971 thousand	4.42	–	596
	RUB 3,000,000 thousand	USD 52,910 thousand	56.70	–	1,567
Forwards					
- foreign currency	EUR 34,000 thousand	USD 36,641 thousand	1.08	2,002	–
- equity securities	16,780	EUR 250 thousand	14.91	3	–
Total derivative financial assets and liabilities at fair value through profit or loss				**11,289**	**11,605**
Derivative financial assets and liabilities designated as hedging instruments					
Swaps	RON 298,300 thousand	EUR 67,068 thousand	4.45	–	1,267
Total derivative financial assets and liabilities designated as hedging instruments				**–**	**1,267**
Derivative financial instruments				**11,289**	**12,872**

(Thousands of euros)

7. Derivative financial instruments (continued)

	31 December 2016				
	Notional amount		Weighted average exchange rate	Fair value	
	Purchase	Sale		Assets	Liabilities
Derivative financial assets and liabilities at fair value through profit or loss					
Swaps	RUB 9,136,720 thousand	EUR 132,150 thousand	69.42	14,246	883
	RON 110,300 thousand	EUR 24,971 thousand	4.44	–	632
	EUR 117,000 thousand	USD 128,825 thousand	1.10	116	5,704
	EUR 8,000 thousand	RUB 572,280 thousand	71.54	–	788
Forwards					
- foreign currency	EUR 34,000 thousand	USD 37,896 thousand	1.11	–	2,080
Total derivative financial assets and liabilities at fair value through profit or loss				**14,362**	**10,087**
Derivative financial assets and liabilities designated as hedging instruments					
Swaps	RON 298,300 thousand	EUR 67,068 thousand	4.45	–	1,536
Total derivative financial assets and liabilities designated as hedging instruments				**–**	**1,536**
Derivative financial instruments				**14,362**	**11,623**

Due to issuing debt securities denominated in currencies other than the functional currency of the Bank (Note 14), the Bank 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 Bank. 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 Bank has positions in the following types of derivatives:

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

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

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

(Thousands of euros)

8. Available-for-sale investment securities

Available-for-sale investment securities comprise:

	30 June 2017 (unaudited)	*31 December 2016*
Owned by the Bank		
Quoted debt securities		
Government bonds:		
Eurobonds issued by governments of member countries	13,369	52,678
Eurobonds issued by governments of other countries	17,824	–
Government bonds	**31,193**	**52,678**
Corporate bonds		
Credit rating AAA	5,029	–
Credit rating from AA- to AA+	3,525	–
Credit rating from A- to A+	20,263	21,152
Credit rating from BBB- to BBB+	19,351	21,861
Credit rating BB+	51,632	57,579
Credit rating B+	1,024	17,575
Corporate bonds	**100,824**	**118,167**
Total quoted debt securities	**132,017**	**170,845**
Quoted equity instruments		
Credit rating AA-	248	–
Credit rating A	244	–
Credit rating BBB-	2,288	–
Credit rating BB+	207	–
No credit rating	4	4
Total quoted equity instruments	**2,991**	**4**
Available-for-sale investment securities	**135,008**	**170,849**
Pledged under repurchase agreements		
Quoted debt securities		
Eurobonds issued by governments of member countries	47,849	10,286
Eurobonds issued by governments of other countries	7,625	7,597
Government bonds	**55,474**	**17,883**
Corporate bonds		
Credit rating AAA	21,031	22,486
Credit rating from AA- to AA+	4,338	4,688
Credit rating from A- to A+	13,572	32,521
Credit rating from BBB- to BBB+	–	4,994
Credit rating from BB- to BB+	4,252	15,886
Corporate bonds	**43,193**	**80,575**
Total quoted available-for-sale debt securities pledged under repurchase agreements	**98,667**	**98,458**

Government bonds represent EUR-denominated, USD-denominated and RUB-denominated securities issued and guaranteed by the Ministries of Finance of these countries, maturing in 2022-2027 (31 December 2016: maturing in 2018-2027). The annual coupon rate for these bonds varies from 0.4% to 8.8% (31 December 2016: from 0.4% to 7.9%).

Corporate bonds are represented by the bonds issued by large companies and banks of member countries of the Bank, as well as corporate international companies and Development Banks that have similar goals and missions with the Bank, maturing in 2018-2031 (31 December 2016: maturing in 2018-2031). The annual coupon rate for these bonds varies from 2.1% to 10.3% (31 December 2016: from 0.6% to 10.35%).

Equity securities are represented by shares and depositary receipts issued by large international and Russian companies.

(Thousands of euros)

9. Loans to banks

During 2017, the Bank 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 Bank 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 Bank provided trade financing loans and long-term loans to banks operating in the following countries:

	30 June 2017 (unaudited)	*31 December 2016*
Trade financing loans:		
Russian Federation	29,256	953
Republic of Belarus	2,555	–
Trade financing loans	**31,811**	**953**
Long-term loans to banks:		
Russian Federation	64,135	26,425
Mongolia	42,249	47,970
Socialist Republic of Vietnam	26,224	19,019
Long-term loans to banks	**132,608**	**93,414**
Total loans to banks	**164,419**	**94,367**
Less: allowance for loan impairment	(774)	–
Loans to banks	**163,645**	**94,367**

A summary of overdue loans as at 30 June 2017 and 31 December 2016 is presented below:

	30 June 2017 (unaudited)	*31 December 2016*
Loans with overdue principal and/or interest	15,478	–
Less: allowance for loan impairment	(774)	–
Overdue loans to banks	**14,704**	–

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

Allowance for impairment of loans to banks

A reconciliation of the allowance for impairment of loans to banks by country is as follows:

	Russian Federation	*Total*
At 1 January 2017	–	–
Net charge for the period	774	**774**
At 30 June 2017 (unaudited)	**774**	**774**
Individual impairment	**774**	**774**
Gross amount of loans to banks, individually determined to be impaired, before deducting any individually assessed impairment allowance	–	–

As at 31 December 2016, there were no impaired loans and allowance for impairment was not accrued.

(Thousands of euros)

9. Loans to banks (continued)

Analysis of collateral for loans to banks

The following table provides an analysis of the portfolio of trade financing loans and long-term loans to banks by type of collateral as at 30 June 2017 and 31 December 2016:

	30 June 2017 (unaudited)		*31 December 2016*	
	Loans to banks	*Share in the total loans, %*	*Loans to banks*	*Share in the total loans, %*
Pledge of the rights of claim	13,349	8.2	–	–
Pledge of real property (mortgage) and title	1,896	1.2	7,247	7.7
Uncollateralized part of the loans	148,400	90.6	87,120	92.3
Loans to banks	**163,645**	**100.0**	**94,367**	**100.0**

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

Concentration of loans to banks

As at 30 June 2017, long-term loans and trade financing loans to four banks (31 December 2016: five banks) with the total amount of loans to each of them exceeding 10% of total loans to banks were recorded on the Bank'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 Bank issued loans to customers operating in the following countries:

	30 June 2017 (unaudited)	*31 December 2016*
Russian Federation	69,702	61,213
Republic of Bulgaria	59,774	65,922
Romania	56,602	40,235
Republic of Ecuador	36,273	39,570
Czech Republic	35,038	22,930
Republic of Panama	32,183	36,276
Hungary	22,865	–
Slovak Republic	20,016	8,411
USA	5,526	6,108
Mongolia	4,737	5,683
Gross loans to customers	**342,716**	**286,348**
Less: allowance for loan impairment	(5,550)	(17,312)
Loans to customers	**337,166**	**269,036**

A summary of overdue loans as at 30 June 2017 and 31 December 2016 is presented below:

	30 June 2017 (unaudited)	*31 December 2016*
Loans with overdue principal and/or interest	15,151	14,769
Less: allowance for loan impairment	(5,255)	(14,769)
Overdue loans to customers	**9,896**	**–**

(Thousands of euros)

10. Loans to customers (continued)

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

Allowance for impairment of loans to customers

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

	Slovak Republic	*Republic of Bulgaria*	*Romania*	*Total*
At 1 January 2017	**8,103**	**6,955**	**2,254**	**17,312**
Net charge for the period	–	6	3,001	**3,007**
Write off against previously accrued allowance	(8,103)	(6,666)	–	**(14,769)**
At 30 June 2017 (unaudited)	**–**	**295**	**5,255**	**5,550**
Individual impairment	**–**	**–**	**5,255**	**5,255**
Gross amount of loans to customers, individually determined to be impaired, before deducting any individually assessed impairment allowance	**–**	**–**	**15,151**	**15,151**

	Slovak Republic	*Republic of Bulgaria*	*Romania*	*Total*
At 1 January 2016	**3,000**	**6,755**	**–**	**9,755**
Net charge for the period	5,103	200	**2,254**	**7,557**
At 31 December 2016	**8,103**	**6,955**	**2,254**	**17,312**
Individual impairment	**8,103**	**6,666**	**–**	**14,769**
Gross amount of loans to customers, individually determined to be impaired, before deducting any individually assessed impairment allowance	**8,103**	**6,666**	**–**	**14,769**

The following table provides an analysis of the customer loan portfolio, net of allowance for impairment, by types of collateral as at 30 June 2017 and 31 December 2016:

	30 June 2017 (unaudited)		*31 December 2016*	
	Loans net of allowance for impairment	*Share in the total loans, %*	*Loans net of allowance for impairment*	*Share in the total loans, %*
Pledge of real property (mortgage) and title	71,732	21.3	25,811	9.6
State guarantees	67,142	19.9	75,845	28.2
Corporate guarantees	43,038	12.7	22,930	8.5
Pledge of equipment and goods in turnover	35,916	10.7	22,641	8.4
Pledge of shares	14,942	4.4	21,579	8.0
Pledge of the rights of claim	9,023	2.7	22,970	8.5
Pledge of vehicles	1,970	0.6	2,756	1.0
Uncollateralized part of the loans	93,403	27.7	74,504	27.8
Total loans to customers	**337,166**	**100.0**	**269,036**	**100.0**

(Thousands of euros)

10. Loans to customers (continued)

Analysis of collateral for loans to customers

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

Concentration of loans to customers

As at 30 June 2017, loans to three borrowers (31 December 2016: three) with the total amount of loans to each of the three borrowers exceeding 10% of total loans to customers were recorded on the Bank'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 Bank issued loans to borrowers operating in the following industries:

	30 June 2017 (unaudited)	*31 December 2016*
Leasing	76,259	85,897
Metal working industry	74,733	22,930
Production and transmission of electricity	55,976	39,570
Food and beverages	26,580	27,504
Communications	22,865	–
Manufacturing of electrical equipment	21,058	20,809
Consulting services	16,221	–
Agriculture	14,308	14,295
Transport	12,499	13,752
Crude oil refining	9,998	10,002
Production of pharmaceutical products	8,044	6,645
Trade	3,862	6,036
Other	313	308
Chemical production	–	23,831
Construction	–	14,769
	342,716	**286,348**
Less: allowance for loan impairment	(5,550)	(17,312)
Loans to customers	**337,166**	**269,036**

11. Other assets and liabilities

Other assets comprise:

	30 June 2017 (unaudited)	*31 December 2016*
Financial assets		
Settlements on bank transactions	1,686	1,814
Accounts receivable on business operations	93	1,351
Guarantee payments	26	42
Other financial assets	15	23
	1,820	**3,230**
Less allowance for impairment	(1,662)	(1,812)
Total financial assets less allowance for impairment	**158**	**1,418**
Non-financial assets		
Advances issued	787	–
Assets held for sale – property	89	89
Other non-financial assets	669	658
Total non-financial assets	**1,545**	**747**
Total other assets	**1,703**	**2,165**

(Thousands of euros)

11. Other assets and liabilities (continued)

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

	30 June 2017 (unaudited)	*31 December 2016*
Allowance at 1 January	**1,812**	**1,544**
Reversal for the period	(27)	(67)
Change in allowance resulting from changes in exchange rates	(123)	335
Allowance at the end of the period	**1,662**	**1,812**

Other liabilities comprise:

	30 June 2017 (unaudited)	*31 December 2016*
Financial liabilities		
Other accounts payable on bank transactions	3,140	662
Other accounts payable on business operations	746	1,282
Other financial liabilities	11	19
Total financial liabilities	**3,897**	**1,963**
Non-financial liabilities		
Settlements with employees	4,362	3,619
Other non-financial liabilities	1,178	72
Total non-financial liabilities	**5,540**	**3,691**
Total other liabilities	**9,437**	**5,654**

As at 30 June 2017, other accounts payable on bank transactions include EUR 3,000 thousand received by the Bank from one of its borrowers counting as loan repayment before its corresponding due date.

12. Deposits from banks and other financial institutions

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

	30 June 2017 (unaudited)	*31 December 2016*
Deposits from banks up to 1 year		
Term deposits from banks and other financial institutions	45,060	52,856
Total deposits from banks up to 1 year	**45,060**	**52,856**
Due from banks over 1 year		
Repurchase agreements	63,295	66,069
Total deposits from banks over 1 year	**63,295**	**66,069**
Total deposits from banks	**108,355**	**118,925**

The Bank 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 Bank has two counterparties (31 December 2016: two counterparties) accounting for over 10% of the Bank's total deposits from banks and other financial institutions in the amount of EUR 97,428 thousand (31 December 2016: EUR 111,418 thousand).

(Thousands of euros)

13. Long-term loans from banks

Long-term loans from banks comprise:

	30 June 2017 (unaudited)	*31 December 2016*
Syndicated loans	59,394	59,039
SSD debentures	12,866	–
Loans from banks	–	14,310
Total long-term loans from banks	**72,260**	**73,349**

On 6 April 2017 the Bank made a debut issue of SSD debentures (Schuldscheindarlehen) on the capital market in Western Europe in the total amount of EUR 13,000 thousand.

14. Debt securities issued

Debt securities issued comprise:

	Interest rate, % p.a.	*Maturity*	*30 June 2017 (unaudited)*	*31 December 2016*
RUB-denominated bonds	0.01-11.9	2024-2027	274,458	151,516
RON-denominated bonds	3.4-4.1	2018-2019	92,602	90,885
EUR-denominated bonds	3.5	2019	30,660	30,127
Total debt securities issued			**397,720**	**272,528**

On 27 April 2017, the Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank entered into cross-currency interest rate swaps for the purpose of managing currency risks (Note 7).

Among other things, the Bank used the proceeds from issuance of debt instruments and placement of bonds to expand its loan portfolio.

(Thousands of euros)

15. Equity

Subscribed and paid-in capital

The Bank's subscribed capital amounts to EUR 1,300,000 thousand, which represents the Bank's equity stated in the Agreement on the Establishment of the International Investment Bank. The Bank's member countries make contributions to the Bank's equity pursuant to their shares stipulated in the Agreement.

As at 30 June 2017, unpaid portion of the Bank's subscribed capital in the amount of EUR 986,947 thousand (31 December 2016: EUR 986,947 thousand) is the amount of contributions by the Bank's member countries which have not been made yet and the amount of unallocated equity contributions totaling EUR 175,500 thousand (31 December 2016: EUR 175,500 thousand).

On 9 March 2016, in accordance with the Memorandum of Understanding singed at the 102nd meeting of the IIB's Council (20-21 November 2014), the Government of Hungary contributed EUR 10,000 thousand to the Bank's equity.

The paid-in capital of the International Investment Bank totals EUR 313,053 thousand (31 December 2016: EUR 313,053 thousand).

Revaluation reserve for available-for-sale securities and revaluation reserve for property and equipment

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

	Revaluation reserve for available-for-sale investment securities	*Revaluation reserve for property and equipment*
At 1 January 2016	**(1,664)**	**31,453**
Net unrealized gains on available-for-sale investment securities	5,401	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(3,186)	–
At 30 June 2016 (unaudited)	**551**	**31,453**
At 1 January 2017	**(1,506)**	**12,945**
Net unrealized gains on available-for-sale investment securities	4,824	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(4,553)	–
At 30 June 2017 (unaudited)	**(1,235)**	**12,945**

Revaluation reserve for available-for-sale investment securities

The revaluation reserve for available-for-sale investment securities records fair value changes of available-for-sale investments.

Revaluation reserve for property and equipment

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

(Thousands of euros)

16. Contingencies and loan commitments

Legal

In the ordinary course of business, the Bank 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 Bank. 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 Bank 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 Bank's further actions to collect bad debt and/or realize respective repossession rights is higher than the amount collected and also when the Bank 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 Bank 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 Bank did not obtain insurance coverage related to temporarily discontinued operations or the Bank's obligations to third parties.

Commitments and contingencies

At any time the Bank may have 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 Bank 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 Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Reimbursement obligations, which are irrevocable reimbursement obligations of the Bank issued on behalf of banks issuing documentary letters of credit that are accepted and paid by partner foreign banks up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing. Undrawn loan facilities represent unused portions of funds to be issued as loans.

Off-balance credit-related commitments are presented in the table below as at 30 June 2017 and 31 December 2016.

	30 June 2017 (unaudited)	***31 December 2016***
Undrawn loan facilities	217,597	33,103
Reimbursement obligations	25,142	9,898
Guarantees issued	16,454	4,934
Total off-balance commitments	**259,193**	**47,935**

The total outstanding contractual amount of undrawn loan facilities, reimbursement obligations and guarantees issued does not necessarily represent future cash claims, as these commitments may expire or terminate without being funded.

17. Leases

Bank as lessor

The Bank provides its investment property for operating leases. As at 30 June 2017, the Bank's non-cancellable operating lease rentals amount to EUR 3,152 thousand (31 December 2016: EUR 4,752 thousand) and will be settled within 1 to 4 years (31 December 2016: 1 to 5 years).

(Thousands of euros)

18. Interest income and interest expense

Net interest income comprises:

	30 June 2017 (unaudited)	*30 June 2016 (unaudited)*
Loans to customers	8,313	6,279
Available-for-sale investment securities	3,120	1,705
Long-term loans to banks	2,906	3,398
Deposits with banks and other financial institutions, including cash and cash equivalents	1,632	2,092
Trade financing loans to banks	171	–
Held-to-maturity investment securities	–	2,763
Interest income	**16,142**	**16,237**
Debt securities issued	(11,932)	(10,833)
Long-term loans from banks	(1,235)	(632)
Funds raised under repurchase agreements	(971)	(904)
Current customer accounts	(120)	(179)
Correspondent accounts and deposits from banks and other financial institutions	(103)	(598)
Other	(3)	(39)
Interest expense	**(14,364)**	**(13,185)**
Net interest income	**1,778**	**3,052**

Interest income accrued on impaired loans issued for the six months of 2017 amounted to EUR 122 thousand (six month of 2016: EUR 0).

19. General and administrative expenses

General and administrative expenses comprise:

	30 June 2017 (unaudited)	*30 June 2016 (unaudited)*
Employee compensations and employment taxes	6,171	5,643
Depreciation of property and equipment and amortization of intangible assets	1,005	870
IT-expenses, inventory and occupancy expenses	845	731
Professional fees	401	292
Expenses related to business travel, representative and accommodation expenses	292	279
Other	201	169
General and administrative expenses	**8,915**	**7,984**

20. Risk management

Risk management framework

The Bank's risk management policy is based on the conservative approach and is mainly aimed at mitigation of adverse impact of risks on the Bank'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 Bank does not enter into potential transactions with high or undeterminable risk level, regardless of profitability.

(Thousands of euros)

20. Risk management (continued)

Risk management framework (continued)

The Bank'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.

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 Bank and all areas of the Bank's activities, the risk management system makes it possible to identify in a timely manner and effectively manage different types of risks.

Risk management involves all of the Bank'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 Bank's operations are managed taking into account the level of the risk appetite 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 Bank.

The Bank 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 Bank will incur a loss because its counterparty fails to discharge its contractual financial obligations to the Bank, 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 Bank considers and consolidates all elements of potential credit risk exposures such as individual borrower or counterparty default risk.

The credit quality assessment of assets is based on the qualitative and quantitative assessment of credit risk.

Deposit contracts with banks and other financial institutions are concluded with counterparties with acceptable credit ratings assigned by such internationally recognized rating agencies as Standard & Poor's, Fitch and Moody's.

(Thousands of euros)

20. Risk management (continued)

Credit risk (continued)

Assessment of credit quality of loans is based on a 5-grade system of risk factor categories: standard, sub-standard, doubtful, impaired and uncollectible. The risk factor category is assigned on the basis of the assessment of the customer's financial position, payment discipline, credit history, compliance with business plan and production discipline, additional characteristics such as management quality, compliance with other terms and conditions of the loan agreement, strength of positions in the market, competitive potential, administrative resources, industry specifics and country rating.

The following table provides information on the credit quality of long-term loans to banks and trade financing loans (Note 9) and loans to customers (Note 10) as at 30 June 2017 and 31 December 2016:

30 June 2017 (unaudited)	*Loan amount*	*Allowance for impairment*	*Loan amount, including impairment*	*Impairment to loan amount ratio, %*
Trade financing loans to banks without any signs of impairment identified				
Standard loans				
- *Russian Federation*	29,256	–	29,256	–
- *Republic of Belarus*	2,555	–	2,555	–
Long-term loans to banks without any signs of impairment identified				
Standard loans				
- *Russian Federation*	48,657	–	48,657	–
- *Mongolia*	42,249	–	42,249	–
- *Socialist Republic of Vietnam*	26,224	–	26,224	–
Watch list loans				
- *Russian Federation*	15,478	(774)	14,704	5.0
	164,419	**(774)**	**163,645**	**0.5**
Loans to customers without any signs of impairment identified				
Standard loans				
- *Russian Federation*	69,702	–	69,702	–
- *Republic of Bulgaria*	53,867	–	53,867	–
- *Romania*	41,451	–	41,451	–
- *Republic of Ecuador*	36,273	–	36,273	–
- *Czech Republic*	35,038	–	35,038	–
- *Republic of Panama*	32,183	–	32,183	–
- *Hungary*	22,865	–	22,865	–
- *Slovak Republic*	20,016	–	20,016	–
- *USA*	5,526	–	5,526	–
- *Mongolia*	4,737	–	4,737	–
Renegotiated loans				
- *Republic of Bulgaria*	5,907	(295)	5,612	5.0
Impaired loans				
- *Romania*	15,151	(5,255)	9,896	34.7
	342,716	**(5,550)**	**337,166**	**1.6**
Total loans	**507,135**	**(6,324)**	**500,811**	**1.2**

(Thousands of euros)

20. Risk management (continued)

Credit risk (continued)

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

Where possible, the Bank 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 Bank'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 Bank'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 Bank) and/or an unforeseen need of immediate and simultaneous discharge of its financial obligations.

(Thousands of euros)

20. Risk management (continued)

Liquidity risk (continued)

Liquidity management is an integral part of general policy for the Bank'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 Bank's balance sheet items, and in accordance with the documents of strategic, tactical and operating planning.

Procedures for the Bank's liquidity position management, ensuring the Bank'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 Bank's management.

Decision making matrix related to liquidity management includes a strategic level of liquidity management (the Council), tactical level (the Board and special-purpose committees) and operational level (responsible structural divisions). Asset and Liability Management Department (DUAP or ALM Unit) became responsible for organizing and aligning management of the Bank's liquidity position. The Bank 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, DUAP issues appropriate recommendations to responsible structural divisions.

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

The liquidity buffer is formed primarily by liquidity reverses, namely securities recognized on the Bank'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 Bank 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 Bank's off-balance credit-related commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

	30 June 2017 (unaudited)	***31 December 2016***
Less than 1 month	113,882	33,213
1 to 3 months	10,681	3,650
3 months to 1 year	89,712	6,138
1 to 5 years	44,918	4,934
Off-balance credit-related commitments	**259,193**	**47,935**

(Thousands of euros)

20. Risk management (continued)

Liquidity risk (continued)

The following table provides an analysis of financial assets and liabilities on the basis of the remaining period from the reporting date to the contractual maturity date. Quoted available-for-sale debt securities were included in “Less than 1 month” category as they are highly liquid investment securities, which the Bank 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 Bank.

	30 June 2017 (unaudited)								*31 December 2016*						
	Less than 1 month	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Past due*	*Total*	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Past due*	*Total*
Assets															
Cash and cash equivalents	83,829	22,313	–	–	–	–	–	**106,142**	93,016	–	–	–	–	–	**93,016**
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	66	23	69	–	–	–	–	**158**	164	123	381	750	–	–	**1,418**
Total assets	**304,139**	**43,580**	**182,108**	**264,318**	**85,680**	**2,991**	**24,600**	**907,416**	**280,349**	**13,816**	**119,072**	**306,036**	**67,570**	**–**	**786,843**
Liabilities															
Due 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	(3,106)	–	(780)	(11)	–	–	–	**(3,897)**	(448)	–	(933)	(582)	–	–	**(1,963)**
Total liabilities	**(52,752)**	**(2,258)**	**(182,526)**	**(359,995)**	**(6,868)**	–	**–**	**(604,399)**	**(60,304)**	**–**	**(169,433)**	**(257,869)**	**–**	**–**	**(487,606)**
Net position	**251,387**	**41,322**	**(418)**	**(95,677)**	**78,812**	**2,991**	**24,600**	**303,017**	**220,045**	**13,816**	**(50,361)**	**48,167**	**67,570**	**–**	**299,237**
Accumulated net position	**251,387**	**292,709**	**292,291**	**196,614**	**275,426**	**278,417**	**303,017**		**220,045**	**233,861**	**183,500**	**231,667**	**299,237**	**299,237**	

(Thousands of euros)

20. Risk management (continued)

Market risk

Market risk is the risk that the Bank 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 Bank 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 Bank'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 Bank applies a VaR methodology to assess currency and equity risks. VaR is a method used in measuring maximum risk of the Bank, 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 Bank 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 Bank is carried out for major currencies and financial instruments of the Bank attributable to a securities portfolio.

At estimating value at risk, the Bank 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 Bank for modeling depends on types of instruments: 250 days for currency and securities. In order to monitor the accuracy of assessment of above mentioned risks, the Bank 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 Bank are represented as follows:

	30 June 2017 (unaudited)	*31 December 2016*
Fixed income securities price risk	1,870	2,325
Price risk on equity securities	256	–
Currency risk	59	27

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

- Analysis based on value at risk assessment is correct in case current market conditions remain unchanged.

Market risk

- 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 Bank's position over this period could have been closed or hedged. Results of value at risk assessment may be incorrect in case of market liquidity deterioration.

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

(Thousands of euros)

20. Risk management (continued)

Market risk (continued)

The Bank 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 Bank's exposure to currency risk as at 30 June 2017 and 31 December 2016 is presented below:

	30 June 2017 (unaudited)					*31 December 2016*				
	EUR	*USD*	*RUB*	*Other currencies*	*Total*	*EUR*	*USD*	*RUB*	*Other currencies*	*Total*
Non-derivative financial Assets										
Cash and cash equivalents	72,387	21,768	11,098	889	**106,142**	66,124	19,969	6,764	159	**93,016**
Deposits with banks and other financial institutions	55,341	–	–	–	**55,341**	40,568	4,769	–	–	**45,337**
Available-for-sale investment securities	139,134	90,123	4,418	–	**233,675**	208,628	53,070	7,609	–	**269,307**
Loans to banks	98,126	65,519	–	–	**163,645**	53,574	40,793	–	–	**94,367**
Loans to customers	197,952	100,127	–	39,087	**337,166**	131,906	137,130	–	–	**269,036**
Other financial assets	72	1	83	2	**158**	225	14	925	254	**1,418**
Total non-derivative financial assets	**563,012**	**277,538**	**15,599**	**39,978**	**896,127**	**501,025**	**255,745**	**15,298**	**413**	**772,481**
Liabilities										
Deposits from banks and other financial institutions	(77,739)	(30,616)	–	–	**(108,355)**	(36,981)	(81,944)	–	–	**(118,925)**
Current customer accounts	(9,177)	(118)	–	–	**(9,295)**	(9,089)	(129)	–	–	**(9,218)**
Long-term loans from banks	(72,260)	–	–	–	**(72,260)**	(59,039)	(14,310)	–	–	**(73,349)**
Debt securities issued	(30,660)	–	(274,458)	(92,602)	**(397,720)**	(30,046)	–	(151,515)	(90,967)	**(272,528)**
Other financial liabilities	(3,112)	(30)	(639)	(116)	**(3,897)**	(529)	(49)	(1,206)	(179)	**(1,963)**
Total non-derivative financial liabilities	**(192,948)**	**(30,764)**	**(275,097)**	**(92,718)**	**(591,527)**	**(135,684)**	**(96,432)**	**(152,721)**	**(91,146)**	**(475,983)**
Net balance sheet position (excluding derivative financial instruments)	**370,064**	**246,774**	**(259,498)**	**(52,740)**	**304,600**	**365,341**	**159,313**	**(137,423)**	**(90,733)**	**296,498**
Derivative financial instruments										
Claims	227,181	–	281,409	91,542	**600,132**	125,117	–	145,832	90,318	**361,267**
Liabilities	(330,385)	(216,365)	(15,278)	(39,687)	**(601,715)**	(224,955)	(124,785)	(8,788)	–	**(358,528)**
Net balance sheet position including derivative financial instruments	**266,860**	**30,409**	**6,633**	**(885)**	**303,017**	**265,503**	**34,528**	**(379)**	**(415)**	**299,237**

(Thousands of euros)

21. Fair value measurement

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

The estimated fair values of financial instruments have been determined by the 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 Bank 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 Bank 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.

	Level 1 30 June 2017 (unaudited)	*Level 2 30 June 2017 (unaudited)*	*Level 3 30 June 2017 (unaudited)*	*Total 30 June 2017 (unaudited)*
Assets measured at fair value				
Derivative financial assets	–	11,289	–	**11,289**
Government bonds of countries	86,667	–	–	**86,667**
Corporate bonds	139,599	4,418	–	**144,017**
Quoted equity instruments	2,987	4	–	**2,991**
Investment property	–	–	21,860	**21,860**
Property and equipment – buildings	–	–	67,158	**67,158**
Liabilities measured at fair value				
Derivative financial liabilities	–	12,872	–	**12,872**
Assets for which fair values are disclosed				
Cash and cash equivalents	234	105,908	–	**106,142**
Deposits with banks and other financial institutions	–	–	55,341	**55,341**
Loans to banks	–	–	162,267	**162,267**
Loans to customers	–	–	338,052	**338,052**
Liabilities for which fair values are disclosed				
Deposits from banks and other financial institutions	–	–	108,355	**108,355**
Current customer accounts	–	–	9,295	**9,295**
Long-term loans from banks	–	–	72,260	**72,260**
Debt securities issued	–	403,323	–	**403,323**

(Thousands of euros)

21. Fair value measurement (continued)

Fair value hierarchy (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2016:

	Level 1 31 December 2016	*Level 2 31 December 2016*	*Level 3 31 December 2016*	*Total 31 December 2016*
Assets measured at fair value				
Derivative financial assets	–	14,362	–	**14,362**
Government bonds of countries	70,561	–	–	**70,561**
Corporate bonds	194,003	4,739	–	**198,742**
Quoted equity instruments	–	4	–	**4**
Investment property	–	–	21,840	**21,840**
Property and equipment – buildings	–	–	67,527	**67,527**
Liabilities measured at fair value				
Derivative financial liabilities	–	11,623	–	**11,623**
Assets for which fair values are disclosed				
Cash and cash equivalents	89	92,927	–	**93,016**
Deposits with banks and other financial institutions	–	–	45,337	**45,337**
Loans to banks	–	–	88,558	**88,558**
Loans to customers	–	–	270,243	**270,243**
Liabilities for which fair values are disclosed				
Deposits from banks and other financial institutions	–	–	118,925	**118,925**
Current customer accounts	–	–	9,218	**9,218**
Long-term loans from banks	–	–	73,349	**73,349**
Debt securities issued	–	279,181	–	**279,181**

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

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

	Carrying amount 30 June 2017 (unaudited)	*Fair value 30 June 2017 (unaudited)*	*Unrecognized gain/(loss) 30 June 2017 (unaudited)*	*Carrying amount 31 December 2016*	*Fair value 31 December 2016*	*Unrecognized gain/(loss) 31 December 2016*
Financial assets						
Cash and cash equivalents	106,142	106,142	–	93,016	93,016	–
Deposits with banks and other financial institutions	55,341	55,341	–	45,337	45,337	–
Loans to banks	163,645	162,267	(1,378)	94,367	88,558	(5,809)
Loans to customers	337,166	338,052	886	269,036	270,243	1,207
Financial liabilities						
Deposits from banks and other financial institutions	108,355	108,355	–	118,925	118,925	–
Current customer accounts	9,295	9,295	–	9,218	9,218	–
Long-term loans from banks	72,260	72,260	–	73,349	73,349	–
Debt securities issued	397,720	403,323	(5,603)	272,528	279,181	(6,653)
Total unrecognized change in unrealized fair value			**(6,095)**			**(11,255)**

(Thousands of euros)

21. Fair value measurement (continued)

Methodologies and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments that are not recorded at fair value in the interim condensed separate financial statements.

Assets for which fair value approximates their 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 values.

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 is 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 Bank determines that interest rates on previously issued loans or received borrowings differ materially from those applicable to similar instruments at the reporting date, the Bank 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 Bank identifies the following three operating segments based on its lines of services:

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

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(Thousands of euros)

22. Segment information (continued)

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

30 June 2017 (unaudited)	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	11,390	4,738	14	**16,142**
Fee and commission income	302	–	–	**302**
Net gains dealing in foreign currencies and operations with derivatives	–	12,520	–	**12,520**
Net gains from revaluation of hedging instruments	–	65	–	**65**
Net gains from available-for-sale investment securities	–	4,553	–	**4,553**
Income from lease of investment property	–	–	2,049	**2,049**
Reversal of allowance for impairment of other assets	–	–	27	**27**
Other segment income	2	–	37	**39**
Total income	**11,694**	**21,876**	**2,127**	**35,697**
Interest expense	(7,313)	(7,051)	–	**(14,364)**
Fee and commission expense	(9)	(60)	(79)	**(148)**
Net loss from revaluation of derivative financial instruments	–	(4,591)	–	**(4,591)**
Net (losses)/gains from revaluation of assets and liabilities in foreign currencies	–	(955)	11	**(944)**
Allowance for impairment of financial assets	(3,781)	–	–	**(3,781)**
Other segment expenses	(89)	(83)	(477)	**(649)**
Segment results	**502**	**9,136**	**1,582**	**11,220**
Other unallocated expenses				**(8,915)**
Profit for the period				**2,305**
Development portfolio	490,923	65,631	–	**556,554**
Other segment assets	9,896	340,413	95,771	**446,080**
Total segment assets	500,819	406,044	95,771	**1,002,634**
Total segment liabilities	276,007	324,495	9,437	**609,939**
Other segment information				
Capital expenditures	–	–	70	**70**

When allocating resources managed by operating segments, the Bank's management identifies the "Development portfolio" assets separately based on whether the investment purpose fulfills the Bank's mission. "Development portfolio" includes loans to banks and loans to customers excluding impaired loan projects and the investments in debt securities purchased upon initial placement by the issuer.

(Thousands of euros)

22. Segment information (continued)

30 June 2016 (unaudited)	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	9,677	6,560	–	**16,237**
Fee and commission income	369	–	156	**525**
Net gains from trading in foreign currencies	–	11,026	–	**11,026**
Net gains from revaluation of derivative financial instruments	–	14,198	–	**14,198**
Net gains from available-for-sale investment securities	–	3,186	–	**3,186**
Income from lease of investment property	–	–	1,782	**1,782**
Net gains from held-to-maturity investment securities	–	251	–	**251**
Reversal of allowance for impairment of financial assets	–	–	89	**89**
Reversal of allowance for impairment of other assets	–	–	14	**14**
Other segment income	102	–	142	**244**
Total income	**10,148**	**35,221**	**2,183**	**47,552**
Interest expense	(5,288)	(7,897)	–	**(13,185)**
Fee and commission expense	(2)	(60)	(75)	**(137)**
Net losses from revaluation of assets and liabilities in foreign currencies	–	(20,996)	(32)	**(21,028)**
Other segment expenses	–	–	(184)	**(184)**
Segment results	**4,858**	**6,268**	**1,892**	**13,018**
Other unallocated expenses				**(7,984)**
Profit for the period				**5,034**
Development portfolio	411,277	–	–	**411,277**
Other segment assets	5,103	403,401	101,767	**510,271**
Total segment assets	416,380	403,401	101,767	**921,548**
Total segment liabilities	141,326	361,182	4,138	**506,646**
Other segment information				
Capital expenditures	–	–	566	**566**

For the six months ended 30 June 2017, the Bank's revenue from lease operations with two external counterparties (for the six months ended 30 June 2016: two counterparties) exceeded 20% of the Bank'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 Bank's revenue from transactions with external customers and non-current assets based on the location of these customers and assets for the periods ended 30 June 2017 and 30 June 2016 is presented in the table below:

	30 June 2017 (unaudited)				*30 June 2016 (unaudited)*			
	Russia	*Other member countries*	*Other countries*	*Total*	*Russia*	*Other member countries*	*Other countries*	*Total*
Interest income	4,130	7,035	4,977	**16,142**	4,677	7,961	3,599	**16,237**
Income from lease of investment property	1,942	107	–	**2,049**	1,782	–	–	**1,782**
Non-current assets	79,204	14,324	–	**93,528**	100,099	–	–	**100,099**

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

(Thousands of euros)

22. Segment information (continued)

Geographical information (continued)

Information on risk concentration by geographical region is based on geographical location of the Bank's counterparties. The geographical concentration of the Bank's assets and liabilities as at 30 June 2017 and 31 December 2016 is presented below:

	30 June 2017 (unaudited)									
	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Mongolia*	*Socialist Republic of Vietnam*	*Czech Republic*	*Hungary*	*Other countries*	*Total*
Assets										
Cash and cash equivalents	11,199	791	399	43	15,313	–	–	–	78,397	**106,142**
Deposits with banks and other financial institutions	4,680	–	–	–	–	–	–	–	50,661	**55,341**
Derivative financial instruments	3,577	–	–	–	–	–	–	–	7,712	**11,289**
Available-for-sale investment securities	17,336	48,971	37,875	9,974	11,293	2,076	–	1,024	105,126	**233,675**
Loans to banks less allowance for impairment	92,617	–	–	–	42,249	26,224	–	–	2,555	**163,645**
Loans to customers less allowance for impairment	69,702	59,479	51,347	20,016	4,737	–	35,038	22,865	73,982	**337,166**
Other financial assets	133	7	–	6	1	–	–	2	9	**158**
Assets	**199,244**	**109,248**	**89,621**	**30,039**	**73,593**	**28,300**	**35,038**	**23,891**	**318,442**	**907,416**
Liabilities										
Deposits from banks and other financial institutions	60	–	–	7,507	–	–	–	–	100,788	**108,355**
Derivative financial instruments	5,799	–	597	–	–	–	–	–	6,476	**12,872**
Long-term loans from banks	9,899	7,425	–	–	–	–	–	7,424	47,512	**72,260**
Debt securities issued	275,090	–	91,970	30,660	–	–	–	–	–	**397,720**
Other financial liabilities	826	–	–	11	–	–	3,000	–	60	**3,897**
Liabilities	**291,674**	**7,425**	**92,567**	**38,178**	**–**	**–**	**3,000**	**7,424**	**154,836**	**595,104**

(Thousands of euros)

22. Segment information (continued)

Geographical information (continued)

	31 December 2016									
	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Mongolia*	*Socialist Republic of Vietnam*	*Czech Republic*	*Hungary*	*Other countries*	*Total*
Assets										
Cash and cash equivalents	16,383	808	26	38	–	–	–	–	75,761	**93,016**
Deposits with banks and other financial institutions	7,159	–	–	–	–	–	–	–	38,178	**45,337**
Derivative financial instruments	2,980	–	–	–	–	–	–	–	11,382	**14,362**
Available-for-sale investment securities	44,688	49,482	36,713	10,286	–	–	–	3,475	124,663	**269,307**
Loans to banks less allowance for impairment	27,378	–	–	–	47,970	19,019	–	–	–	**94,367**
Loans to customers less allowance for impairment	61,213	58,967	37,981	308	5,683	–	22,930	–	81,954	**269,036**
Other financial assets	1,405	8	–	1	–	–	–	–	4	**1,418**
Assets	**161,206**	**109,265**	**74,720**	**10,633**	**53,653**	**19,019**	**22,930**	**3,475**	**331,942**	**786,843**
Liabilities										
Deposits from banks and other financial institutions	–	–	–	7,508	–	–	–	–	111,417	**118,925**
Derivative financial instruments	4,528	–	633	–	–	–	–	–	6,462	**11,623**
Long-term loans from banks	9,840	21,690	–	–	–	–	–	7,380	34,439	**73,349**
Debt securities issued	151,434	–	90,967	30,127	–	–	–	–	–	**272,528**
Other financial liabilities	1,905	–	–	19	–	–	–	–	39	**1,963**
Liabilities	**167,707**	**21,690**	**91,600**	**37,654**	**–**	**–**	**–**	**7,380**	**152,357**	**478,388**

Other countries include non-member countries.

(Thousands of euros)

23. 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 paid to the substance of the relationship, not merely the legal form.

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

The volumes of related party transactions, outstanding balances as at 30 June 2017 and 31 December 2016, and related expense and income for the six months ended 30 June 2017 and 30 June 2016 are as follows:

	Related party	*30 June 2017 (unaudited)* *Carrying amount*	*31 December 2016* *Carrying amount*
Separate statement of financial position			
Current customer accounts	Key management personnel	1,839	1,783
Other non-financial liabilities	Key management personnel	513	416
Other financial liabilities	Subsidiary	304	320

	Related party	*30 June 2017 (unaudited)* *Income/ (expense)*	*30 June 2016 (unaudited)* *Income/ (expense)*
Separate income statement			
Interest expense on amounts due to banks and other financial institutions	Subsidiary	–	(1)
Interest expense on current customer accounts	Key management personnel	(27)	(34)
Net interest expense after allowance for loan impairment		**(27)**	**(35)**
Operating losses		**(27)**	**(35)**
Employee benefits	Key management personnel	(669)	(572)
Compensation for travel expenses and medical insurance	Key management personnel	(32)	(55)
Professional services	Subsidiary	(277)	(204)
Operating expenses		**(978)**	**(831)**
Net loss for the period		**(1,005)**	**(866)**

24. Capital adequacy

Capital adequacy ratio is the most important financial indicator characterizing credibility of credit institutions and is estimated as ratio of capital base to risk-weighted assets expressed as a percentage. Approval of the capital adequacy ratio is the sole power of the Bank’s Council.

The Basel Committee on Banking Supervision recommends maintaining the ratio of capital to risk-weighted assets (“capital adequacy ratio”) above the prescribed minimum level. As at 30 June 2017, this minimum level is 8% (31 December 2016: 8%).

Besides, taking into account the Bank’s status as the multilateral development institution and the structure of the Bank’s member countries, the capital adequacy ratio was set by the Council at the level of not less than 25% as at 30 June 2017 (31 December 2016: 25%).

(Thousands of euros)

24. Capital adequacy (continued)

The following table shows the composition of the Bank's capital position computed in accordance with the Basel Accord (Basel II) as at 30 June 2017 and 31 December 2016.

	30 June 2017 (unaudited)	***31 December 2016***
Capital		
Tier 1 capital	378,534	377,719
Tier 2 capital	11,709	11,439
Total regulatory capital	**390,243**	**389,158**
Risk-weighted assets		
Credit risk	696,990	482,246
Market risk	179,730	186,588
Operational risk	43,411	50,683
Total risk weighted assets	**920,131**	**719,517**
Total capital expressed as a percentage of risk-weighted assets, % ("capital adequacy ratio")	42.41%	54.09%
Total tier 1 capital expressed as a percentage of risk-weighted assets, % ("tier 1 capital adequacy ratio")	41.14%	52.50%

(The end)