

Report on Review of Interim Financial Information
International Investment Bank
for the six-month period ended 30 June 2018

August 2018

Report on Review of Interim Financial Information

International Investment Bank

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Report on Review of Interim Financial Information

To Council of International Investment Bank

Introduction

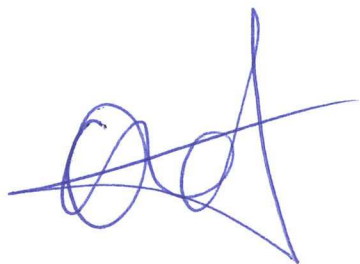
We have reviewed the accompanying interim condensed separate financial statements of International Investment Bank, which comprise the interim separate statement of financial position as at 30 June 2018, the interim separate income statement, interim separate statement of comprehensive income, interim 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.

Conclusion

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



O.V. Youshenkov
Partner
Ernst & Young Vneshaudit LLC

3 August 2018

Details of the entity

Name: International Investment Bank

Bank operates on the basis of the Agreement on the Establishment of the International Investment Bank dated 10 July 1970, registered in the UN Secretariat on 1 December 1971 under No. 11417.

Address: Russia 107078, Moscow, Mashi Poryvaevoy str., 7.

Details of the auditor

Name: Ernst & Young Vneshaudit LLC

Record made in the State Register of Legal Entities on 4 February 2016, State Registration Number 1167746123478.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.

Ernst & Young Vneshaudit LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young Vneshaudit LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050953.

INTERIM SEPARATE STATEMENT OF FINANCIAL POSITION**As at 30 June 2018***(Thousands of euros)*

	<i>Note</i>	<i>30 June 2018 (unaudited)</i>	<i>31 December 2017</i>
Assets			
Cash and cash equivalents	5	57,108	66,026
Deposits with banks and other financial institutions	6	34,296	45,889
Derivative financial assets	7	1,347	7,761
Available-for-sale securities	8	—	138,704
Available-for-sale securities pledged under repurchase agreements	8	—	76,723
Securities at fair value through other comprehensive income	8	174,808	—
Securities at fair value through other comprehensive income pledged under repurchase agreements	8	19,038	—
Securities at amortized cost	9	29,383	—
Securities at amortized cost pledged under repurchase agreements	9	12,039	—
Loans to banks	10	164,116	201,635
Loans to customers	11	545,627	462,514
Investment in subsidiary	2	145	145
Investment property		20,862	21,853
Property, equipment and intangible assets		71,569	72,386
Other assets	12	2,798	2,406
Total assets		1,133,136	1,096,042
Liabilities			
Due to banks and other financial institutions	14	84,941	65,511
Derivative financial liabilities	7	36,570	15,073
Current customer accounts		8,659	8,593
Long-term loans of banks	15	46,077	95,592
Debt securities issued	16	581,753	509,213
Other liabilities	12	7,588	6,474
Total liabilities		765,588	700,456
Equity	17		
Subscribed capital		1,300,000	1,300,000
Callable capital		(985,038)	(985,038)
Paid-in capital		314,962	314,962
Revaluation reserve for securities at fair value through other comprehensive income (2017: revaluation reserve for available- for-sale securities)		(4,239)	240
Revaluation reserve for property and equipment		13,748	13,748
Retained earnings less net income for the period		37,985	65,627
Net income for the period		5,092	1,009
Total equity		367,548	395,586
Total equity and liabilities		1,133,136	1,096,042

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

Nikolay Kosov



Chairman of the Board

Elena Minduksheva



Deputy Director of the Finance Department

3 August 2018

The accompanying notes 1-28 are an integral part of these interim condensed separate financial statements

INTERIM SEPARATE INCOME STATEMENT**Six months ended 30 June 2018***(Thousands of euros)*

	<i>Note</i>	<i>For the six months ended 30 June (unaudited)</i>	
		<i>2018</i>	<i>2017</i>
Interest income calculated using the EIR method	20	21,604	16,142
Other interest income	20	7,943	8,697
Interest expenses calculated using the EIR method	20	(17,476)	(14,364)
Other interest expenses	20	(908)	(806)
Net interest income		11,163	9,669
Net reversal/(charge) of allowance for credit losses on financial instruments	5-6, 8, 10-11, 13, 18	60	(3,781)
Net interest expense after allowance for loan impairment		11,223	5,888
Fee and commission income		870	302
Fee and commission expense		(215)	(148)
Net fee and commission income		655	154
Net losses from dealing in foreign currencies and operations with derivatives	21	(1,860)	(841)
Net gains from operations with securities at fair value through profit or loss		92	–
Net gains from operations with securities at fair value through other comprehensive income		2,238	4,553
Dividend income		6	–
Income from lease of investment property	19	2,032	2,049
Other income		453	39
Net non-interest income		2,961	5,800
Operating income		14,839	11,842
Net (charge)/reversal of other allowances	12, 13	(1)	27
General and administrative expenses	22	(8,759)	(8,915)
Other operating expenses on banking operations		(987)	(649)
Operating expenses		(9,747)	(9,537)
Net income for the period		5,092	2,305

INTERIM SEPARATE STATEMENT OF COMPREHENSIVE INCOME**Six months ended 30 June 2018***(Thousands of euros)*

	<i>Note</i>	<i>For the six months ended 30 June (unaudited)</i>	
		<i>2018</i>	<i>2017</i>
Net income for the period		5,092	2,305
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Impact of adopting IFRS 9		(2,043)	–
Change in unrealized revaluation of securities at fair value through other comprehensive income	17	(4,737)	271
Change in the allowance for expected credit losses related to securities at fair value through other comprehensive income	8	306	–
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		(6,474)	271
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods</i>			
Losses from revaluation of equity instruments at fair value through other comprehensive income		(48)	–
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		(48)	–
Other comprehensive (loss)/income		(6,522)	271
Total comprehensive (loss)/income for the period		(1,430)	2,576

INTERIM SEPARATE STATEMENT OF CHANGES IN EQUITY**Six months ended 30 June 2018***(Thousands of euros)*

	<i>Subscribed capital</i>	<i>Callable capital</i>	<i>Revaluation reserve for securities</i>	<i>Revaluation reserve for property and equipment</i>	<i>Retained earnings</i>	<i>Total equity</i>
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 loss for the period	–	–	271	–	–	271
Total comprehensive income/(loss)	–	–	271	–	2,305	2,576
At 30 June 2017 (unaudited)	1,300,000	(986,947)	(1,235)	12,945	67,932	392,695
At 31 December 2017	1,300,000	(985,038)	240	13,748	66,636	395,586
Impact of adopting IFRS 9	–	–	2,043	–	(28,903)	(26,860)
Balance at 1 January 2018 restated under IFRS 9	1,300,000	(985,038)	2,283	13,748	37,733	368,726
Profit for the period	–	–	–	–	5,092	5,092
Other comprehensive loss for the period	–	–	(6,522)	–	–	(6,522)
Total comprehensive (loss)/income	–	–	(6,522)	–	5,092	(1,430)
Reclassification of the net change in fair value of equity instruments at derecognition	–	–	–	–	252	252
At 30 June 2018 (unaudited)	1,300,000	(985,038)	(4,239)	13,748	43,077	367,548

INTERIM SEPARATE STATEMENT OF CASH FLOWS**Six months ended 30 June 2018***(Thousands of euros)*

	<i>For the six months ended 30 June (unaudited)</i>	
<i>Note</i>	<i>2018</i>	<i>2017</i>
Cash flows from operating activities		
Interest, fees and commissions received	30,115	22,256
Interest, fees and commissions paid	(5,226)	(6,129)
Realized gains less losses from dealing in foreign currencies and operations with derivatives	7,457	6,386
Cash flows from lease of investment property	2,032	2,049
General and administrative expenses	(7,791)	(7,425)
Other operating (expenses)/income on banking operations	(53)	(59)
Cash flows from operating activities before changes in operating assets and liabilities	26,534	17,078
<i>Net (increase)/decrease in operating assets</i>		
Deposits with banks and other financial institutions	20,255	(16,973)
Loans to banks	30,797	(69,609)
Loans to customers	(96,247)	(82,012)
Other assets	(280)	620
<i>Net increase/(decrease) in operating liabilities</i>		
Due to banks and other financial institutions	10,903	(4,037)
Current customer accounts	(570)	(543)
Other liabilities	(7,407)	4,397
Net cash flows from operating activities	(16,015)	(151,079)
Cash flows from investing activities		
Dividend income	6	–
Interest received	2,543	2,935
Purchase of securities at fair value through other comprehensive income	(189,836)	(193,404)
Proceeds from sale and redemption of securities at fair value through other comprehensive income	172,189	227,954
Proceeds from redemption of securities at amortized cost	253	–
Proceeds from sale of investment property/(investments) in investment property	1,074	(20)
Acquisition of property, equipment and intangible assets	(347)	(836)
Proceeds from sale of property, equipment and intangible assets	–	3
Net cash flows from investing activities	(14,118)	36,632
Cash flows from financing activities		
Interest paid	(12,150)	(10,533)
Long-term interbank financing raised	10,172	13,000
Long-term interbank financing repaid	(60,455)	(13,451)
Placement of debt securities issued	84,470	205,194
Redemption and repurchase of debt securities issued	–	(62,858)
Net cash flows from financing activities	22,037	131,352
Effect of exchange rate changes on cash and cash equivalents	(822)	(3,779)
Net increase/(decrease) in cash and cash equivalents	(8,918)	13,126
Cash and cash equivalents, beginning	66,026	93,016
Cash and cash equivalents, ending	57,108	106,142

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*(Thousands of euros)***1. Principal activities**

The International Investment Bank (the “Bank” or the “IIB”) was founded in 1970 and has operated since 1 January 1971.

The Bank is an international institution operating on the basis of the Intergovernmental Agreement on the Establishment of the International Investment Bank (the “Agreement”) and the Statute. The Agreement was ratified by the member countries of the Bank and registered with the Secretariat of the United Nations in December 1971. The Bank is primarily engaged in commercial lending for the benefit of national investment projects in the member countries of the Bank and for other purposes defined by the Council of the Bank. The Bank also performs transactions with securities and foreign currency. The Bank operates from its office at 7 Mashki Poryvaevoy str., Moscow, Russia, and the European regional office in Bratislava (Eurovea Central 1, Pribinova 4, Bratislava, 81109, Slovak Republic).

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

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

- ▶ The Bank has wound up the introduction of changes to its constituent documents and implementation of the three level corporate governance structure. On 25 June 2018, the Protocol on Introducing Changes to the Agreement on the Establishment of the International Investment Bank and the Statutes (hereinafter, the “Protocol”) was ratified by the last remaining member country, the Slovak Republic. Accordingly, in August 2018, the Protocol will enter into force and new IIB corporate governance bodies (Board of Governors and Board of Directors) will be set up.
- ▶ In June 2018, the city of Yaroslavl, Russian Federation, hosted the 109th Meeting of the IIB Council. It was the first Council meeting in the new strategic cycle. Member countries unanimously supported the establishment of an IIB European Unit (Budapest) – a multifunctional front office, which also will perform middle and back office functions. To implement the decision, on 18 June 2018, the Government of Hungary and the IIB signed a Memorandum of Understanding, which provides legal foundation for the cooperation between the IIB and the Government of Hungary to open the IIB European Unit in Budapest, as well as formalizes intentions of both parties to finalize until the end of the year 2018 and sign the host-country agreement for the IIB European Unit, in order for the office to start operating in full at the beginning of 2019.
- ▶ As part of the 2013 Capitalization Program, the Government of Romania decided to make an additional contribution to the IIB’s paid-in capital of EUR 4 million. On 12 July 2018, the additional contribution was transferred to the Bank’s correspondent account.
- ▶ In June 2018, the Council of the Bank approved key approaches to the new IIB Capitalization Program for 2018-2022 (hereinafter, the “Program”). A detailed Program will be prepared in close cooperation with the member states until the year-end and submitted for approval to the IIB Council.
- ▶ On 12 April 2018, Standard & Poor’s international rating agency upgraded the IIB long-term credit rating to BBB+ with stable outlook. On 30 April 2018, Moody’s Investors Services international rating agency also upgraded the IIB long-term credit rating to A3 with stable outlook. In addition, the Bank was assigned the following investment grade ratings: BBB with positive outlook (Fitch Ratings) and A with positive outlook (Dagong Global Credit Rating).
- ▶ In April-June 2018, the IIB successfully placed its first CZK-denominated issue of bonds at the Vienna and Prague Stock Exchanges. The private placement issue totaled CZK 750 million.
- ▶ In October 2018, the Bank will become a full-fledged member of the International Development Finance Club (IDFC), a network of leading national and regional development banks.

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

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

<i>Member countries</i>	<i>30 June 2018, % (unaudited)</i>	<i>31 December 2017, %</i>
Russian Federation	47.634	47.634
Republic of Bulgaria	13.399	13.399
Hungary	12.700	12.700
Czech Republic	9.644	9.644
Slovak Republic	6.820	6.820
Romania	5.859	5.859
Republic of Cuba	1.702	1.702
Socialist Republic of Vietnam	1.165	1.165
Mongolia	1.077	1.077
	100.000	100.000

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

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

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

Business environment in the member countries

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

The accompanying interim condensed separate financial statements reflect the management's assessment of the possible impact of the member countries' business environment on the results of operations and financial position of the 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**

The Bank, as a parent company, prepares interim condensed consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") approved by the International Accounting Standards Board. The interim condensed consolidated financial statements of the IIB Group for the six months ended 30 June 2018 was signed and authorized for release on behalf of the Board of the Bank on 3 August 2018.

These interim condensed separate financial statements have been prepared for the six months ended 30 June 2018 in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* approved by the International Accounting Standards Board.

The interim condensed 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 2017.

(Thousands of euros)

2. Basis of preparation (continued)

Subsidiary

As at 30 June 2018, the Bank is a parent company of the Group, which owns CJSC IIB Capital (the Bank's 100% subsidiary) established in 2012 to deal with issues related to IIB activities in Russia, including the provision of trustee services to the Bank.

Investment in a subsidiary is recognized at cost. Management regularly performs valuation of net assets of the subsidiary and, when necessary, provides for impairment.

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, equipment and investment property 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. Summary of accounting policies

Changes in accounting policies

The Bank has adopted the following amended IFRS which are effective for annual periods beginning on or after 1 January 2018: The Bank has not early adopted standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each new amendment are described below:

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* and is effective for annual periods beginning on or after 1 January 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparatives for 2017 are presented in accordance with IAS 39 and may not be consistent with the data for 2018.

Differences arising from the adoption of IFRS 9 have been recognized directly in equity as at 1 January 2018 and are disclosed below.

(a) Classification and measurement

Pursuant to IFRS 9, all debt financial assets that do not meet the Solely Payments of Principal and Interest ("SPPI") criterion are classified at initial recognition as financial assets at fair value through profit or loss ("FVPL"). According to this criterion, debt instruments that do not meet the definition of basic credit agreement (such as instruments with embedded conversion options or non-recourse loans) are measured at FVPL. Those debt financial instruments that meet the SPPI criterion are classified at initial recognition based on the business model used for managing such instruments:

- ▶ Instruments held to receive contractual cash flows are measured at amortized cost.
- ▶ Instruments held to receive the contractual cash flows and for sale are classified as at fair value through other comprehensive income (FVOCI).
- ▶ Instruments held for other purposes are classified as at FVPL.

*(Thousands of euros)***3. Summary of accounting policies (continued)****Changes in accounting policies (continued)**

Equity financial assets are classified at initial recognition at FVPL, except when the entity decided to irrevocably designate such assets at FVOCI. For equity financial instruments classified at FVOCI, all realized and unrealized gains or losses (except for dividend income) are recognized in other comprehensive income, with no subsequent reclassification to profit or loss.

The classification and measurement of financial liabilities remains almost unchanged from the existing requirements of IAS 39.

Derivative financial instruments continue to be measured at FVPL.

(b) Impairment

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

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

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above, the Bank classifies financial instruments issued and exposed to credit risk as follows:

Stage 1:	At initial recognition of a financial instrument, the Bank recognizes an impairment allowance in the amount equal to 12-month ECL. Stage 1 also includes loans and other financial instruments for which credit risk decreased to the extent they have been reclassified from Stage 2.
Stage 2:	If there has been a significant increase in credit risk for the financial instrument since its initial recognition, the Bank recognizes an impairment allowance in the amount equal to lifetime ECL. Stage 2 also includes loans and other credit facilities for which credit risk decreased to the extent they have been reclassified from Stage 3.
Stage 3:	Credit-impaired financial instruments. The Bank recognizes an impairment allowance in the amount equal to lifetime ECL.

If the Bank does not have reasonable expectations regarding recoverability of the financial asset in full or in part, the gross carrying amount of the asset should be decreased. Such a decrease is considered (a partial) derecognition of the financial asset.

Key inputs required for ECL calculation are as follows:

Probability of default (PD)	<i>Probability of default</i> (PD) is an estimate of the probability of default within a specified period. Default may occur only at a certain point in time within the stated period unless the asset was derecognized or excluded from the portfolio.
Exposure at default (EAD)	<i>Exposure at default</i> (EAD) is an estimate of the exposure at default at a certain future date, adjusted to reflect its changes expected after the reporting date, including payments of interest or the principal amount due under a contract or otherwise, as well as repayment of loans issued and interest accrued on overdue payments.
Loss given default (LGD)	<i>Loss given default</i> (LGD) is an estimate of losses arising on default at a certain point in time. LGD is calculated as a difference between contractual cash flows and cash flows a creditor expects to receive, including from the sale of collateral. This estimate is usually expressed as EAD percentage.

(Thousands of euros)

3. Summary of accounting policies (continued)**Changes in accounting policies (continued)**

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

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

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

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

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

(c) Effect of transition to IFRS 9

The effect of transition to IFRS 9 on the interim statement of financial position and retained earnings, including the effect from replacing the IAS 39 incurred credit loss approach with the IFRS 9 ECL approach, is described below.

A reconciliation between carrying amounts under IAS 39 and IFRS 9 as at 1 January 2018 is as follows:

<i>Financial assets</i>	<i>Note</i>	<i>IAS 39 measurement</i>		<i>Reclassifi- cation</i>	<i>Difference (ECL)</i>	<i>Difference (other)</i>	<i>IFRS 9 measurement</i>	
		<i>Category</i>	<i>Amount</i>				<i>Amount</i>	<i>Category</i>
Cash and cash equivalents		L&R ¹	66,026	–	(8)	–	66,018	Amortized cost
Deposits with banks and other financial institutions		L&R	45,889	–	(241)	–	45,648	Amortized cost
Loans to banks – amortized cost		L&R	201,635	–	(8,848)	–	192,787	Amortized cost
Loans to customers – amortized cost		L&R	462,514	–	(18,542)	–	443,972	Amortized cost
<i>From: Available-for-sale securities, including those pledged under repurchase agreements</i>		AFS ³	215,427	(215,427)	–	–	–	
<i>To:</i>								
Securities at fair value through other comprehensive income, including those pledged under repurchase agreements		AFS	–	175,065	(440)	440	175,065	FVOCI (debt instruments, investments)
Securities, including those pledged under repurchase agreements – equity securities at fair value through profit or loss	B	AFS	–	1,710	–	–	1,710	FVPL (equity instruments)
Securities at amortized cost	A	HTM	–	38,652	–	1,649	40,301	FVOCI (debt instruments)
Other financial assets		L&R	726	–	(6)	–	720	
Total assets			992,217	–	(28,085)	2,089	966,221	
Non-financial liabilities								
Allowances for expected credit losses on credit-related commitments and contingencies			–	–	864	–	864	
Total liabilities			–	–	864	–	864	

¹ L&R – loans and receivables.² HTM – held to maturity.³ AFS – available for sale.

(Thousands of euros)

3. Summary of accounting policies (continued)**Changes in accounting policies (continued)**

- A As at 1 January 2018, the Bank reclassified a part of its assets previously classified as ‘available for sale’ to ‘debt instruments measured at amortized cost’. These instruments satisfied the SPPI criterion, were unquoted in an active market and held to collect related cash flows rather than for sale.
- B The Bank made an irrevocable election to reclassify certain investments in equity instruments previously classified as ‘available for sale’ to ‘investments in equity instruments at FVOCI’.

The impact of transition to IFRS 9 on reserves and retained earnings is as follows:

	<i>Reserves and retained earnings</i>
Revaluation reserve for securities at fair value through other comprehensive income (2017: Revaluation reserve for available-for-sale securities)	
Balance at the end of the period as per IAS 39 (31 December 2017)	240
Reclassification of debt securities from ‘available for sale’ to ‘measured at amortized cost’	1,603
ECL recognized on debt financial assets at FVOCI as per IFRS 9	440
Balance at the beginning of the period as per IFRS 9 (1 January 2018)	2,283
Retained earnings	
Balance at the end of the period as per IAS 39 (31 December 2017)	66,636
Revaluation on reclassification of debt securities from ‘available for sale’ to ‘measured at amortized cost’	46
ECL recognized under IFRS 9, including on instruments at FVOCI	(28,949)
Balance at the beginning of the period as per IFRS 9 (1 January 2018)	37,733
Total changes in equity following the adoption of IFRS 9	(26,860)

The following table reconciles the allowance for impairment of financial assets and provisions for credit-related commitments, letters of credit and financial guarantees as defined by IAS 39 and IAS 37 as at 31 December 2017 with the allowances for expected credit losses as defined by IFRS 9 as at 1 January 2018.

	<i>31 December 2017 IAS 39 / IAS 37</i>	<i>Revaluation as per IFRS 9</i>	<i>1 January 2018 IFRS 9</i>
Allowance for impairment			
Cash and cash equivalents	–	8	8
Deposits with banks and other financial institutions	34,967	241	35,208
Securities at fair value through other comprehensive income (2017: available-for-sale securities)	–	440	440
Loans to banks	9,153	8,848	18,001
Loans to customers	5,555	18,542	24,097
Other financial assets	1,639	6	1,645
	51,314	28,085	79,399
Credit-related commitments	–	408	408
Letters of credit issued to customers	–	402	402
Financial guarantees	–	54	54
	–	864	864
	51,314	28,949	80,263

(Thousands of euros)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014 and amended in April 2016, establishes a five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the expectation of an entity regarding the compensation it would be entitled in exchange for transferring the goods or services to a customer. The standard, however, does not apply to income related to financial instruments or leases, and therefore does not impact most of the Bank's income, including interest income, net gains/(losses) from securities, lease income regulated by IFRS 9 *Financial Instruments* and IAS 17 *Leases*. As a result, the Bank's income is not affected by the adoption of this standard.

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 influence the amounts recognized in the interim condensed separate financial statements and the carrying amounts of assets and liabilities in the following financial year. Estimates and assumptions are continuously assessed and are based on the management experience and other factors, including expectations of future events that are considered as reasonable under the circumstances.

Assumptions and estimates adopted by management of the 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 2017.

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

- ▶ Note 7 – Derivative financial instruments;
- ▶ Note 8 – Available-for-sale securities;
- ▶ Note 10 – Loans to banks;
- ▶ Note 11 – Loans to customers;
- ▶ Note 18 – Commitments and contingencies.

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(Thousands of euros)

4. Significant accounting judgments and estimates (continued)**Reclassification of comparative information**

The Bank changed the presentation of line items in the interim separate income statement and interim separate statement of cash flows for the six months ended 30 June 2017. The following adjustments were made to the data for 2017 in order to be consistent with the presentation of the data for 2018:

	<i>As previously reported</i>	<i>Reclassification amount</i>	<i>As reclassified</i>
Item of the interim consolidated income statement			
Net losses from revaluation of derivative financial instruments	(4,591)	4,591	–
Net gains from revaluation of hedging instruments	65	(65)	–
Net gains from dealing in foreign currencies and operations with derivatives	12,520	(12,520)	–
Net losses from revaluation of assets and liabilities in foreign currencies	(944)	944	–
Net gains from dealing in foreign currencies and operations with derivatives	–	(841)	(841)
Other interest income	–	8,697	8,697
Other interest expenses	–	(806)	(806)
Item of the interim consolidated statement of cash flows			
Interest, fees and commissions received	11,636	10,620	22,256
Interest, fees and commissions paid	(2,174)	(3,955)	(6,129)
Realized gains less losses from dealing in foreign currencies and operations with derivatives	13,051	(6,665)	6,386

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	<i>30 June 2018 (unaudited)</i>	<i>31 December 2017</i>
Cash on hand	363	82
Nostro accounts with banks and other financial institutions		
<i>Credit rating from A- to A+</i>	40,639	49,120
<i>Credit rating from BBB- to BBB+</i>	4,126	4,167
<i>Credit rating from BB- to BB+</i>	370	274
Total nostro accounts with banks and other financial institutions	45,135	53,561
Short-term deposits with banks		
<i>Term deposits with banks</i>		
<i>Credit rating from A- to A+</i>	11,248	–
<i>Credit rating from BBB- to BBB+</i>	363	–
<i>Credit rating from BB- to BB+</i>	–	12,383
Total short-term deposits with banks	11,611	12,383
Less: allowance for impairment	(1)	–
Cash and cash equivalents	57,108	66,026

*(Thousands of euros)***5. Cash and cash equivalents (continued)**

Cash and cash equivalents are neither impaired nor past due.

All balances of cash equivalents are included in Stage 1. The movements in the allowance for ECL for the six months ended 30 June 2018 were as follows:

Allowance for ECL at 1 January 2018	8
New purchased or originated assets	53
Assets derecognized or redeemed	(60)
Allowance for ECL at 30 June 2018 (unaudited)	1

6. Deposits with banks and other financial institutions

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

	<i>30 June 2018 (unaudited)</i>	<i>31 December 2017</i>
Term deposits up to 1 year		
<i>Credit rating from B- to B+</i>	–	37,157
Total term deposits up to 1 year	–	37,157
Term deposits over 1 year		
<i>Credit rating from A- to A+</i>	22,090	5,650
<i>Credit rating from BBB- to BBB+</i>	9,046	–
<i>Credit rating from BB- to BB+</i>	3,160	3,082
Total term deposits over 1 year	34,296	8,732
Less: allowance for impairment	–	–
Total deposits with banks and other financial institutions	34,296	45,889

All balances of deposits with banks and other financial institutions are included in Stage 1. The movements in the allowance for ECL for the six months ended 30 June 2018 were as follows:

Allowance for ECL at 1 January 2018	241
New purchased or originated assets	–
Assets derecognized or redeemed	(241)
Allowance for ECL at 30 June 2018 (unaudited)	–

As at 30 June 2018, EUR 34,967 thousand (31 December 2017: EUR 34,967 thousand) were due to the Bank from the Central Bank of Cuba. This amount was 100% provisioned (31 December 2017: 100%).

Concentration of deposits with banks and other financial institutions

As at 30 June 2018, besides the deposits with the Central Bank of Cuba, the Bank had three counterparties (31 December 2017: three counterparties) accounting for over 10% of the Bank's total deposits with banks and other financial institutions. As at 30 June 2018, these deposits amounts to EUR 27,326 thousand (31 December 2017: EUR 25,724 thousand) and were not provisioned (31 December 2017: the deposits were not provisioned).

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(Thousands of euros)

7. Derivative financial instruments

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

The table below shows the fair value of derivative financial instruments as at 30 June 2018 and 31 December 2017 and notional amounts of term contracts for the purchase and sale of foreign currency specifying weighted average contractual exchange rates.

		30 June 2018 (unaudited)			
		Notional amount		Weighted average exchange rate	Fair value
		Purchase	Sale		
				Assets	Liabilities
Derivative financial assets and liabilities at fair value through profit or loss					
Swaps					
	RUB 12,347,998 thousand	EUR 190,629 thousand	64.98	49	17,358
	RON 319,800 thousand	EUR 70,544 thousand	4.53	349	1,107
	EUR 166,500 thousand	USD 202,387 thousand	1.22	–	8,139
	EUR 15,139 thousand	HUF 4,760,000 thousand	314.42	643	5
	HUF 5,570,000 thousand	EUR 17,258 thousand	322.80	–	314
	CZK 750,000 thousand	EUR 29,503 thousand	25.42	306	–
	RUB 3,000,000 thousand	USD 52,910 thousand	56.70	–	3,286
Forwards					
	EUR 34,000 thousand	USD 42,040 thousand	1.24	–	2,317
Total derivative financial assets and liabilities at fair value through profit or loss				1,347	32,526
Derivative financial assets and liabilities designated as hedging instruments					
Swaps					
	RON 298,300 thousand	EUR 67,068 thousand	4.45	–	4,044
Total derivative financial assets and liabilities designated as hedging instruments				–	4,044
Derivative financial instruments				1,347	36,570

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(Thousands of euros)

7. Derivative financial instruments (continued)

	31 December 2017				
	Notional amount		Weighted average exchange rate	Fair value	
	Purchase	Sale		Assets	Liabilities
Derivative financial assets and liabilities at fair value through profit or loss					
Swaps	EUR 180,000 thousand	USD 209,572 thousand	1.16	5,203	89
	EUR 10,270 thousand	HUF 3,160,000 thousand	307.69	54	–
	RUB 9,997,998 thousand	EUR 158,232 thousand	63.20	–	8,603
	RUB 3,000,000 thousand	USD 52,910 thousand	56.70	638	–
	RON 319,800 thousand	EUR 70,544 thousand	4.53	931	1,212
Forwards	EUR 34,000 thousand	USD 39,527 thousand	1.16	935	–
Total derivative financial assets and liabilities at fair value through profit or loss				7,761	9,904
Derivative financial assets and liabilities designated as hedging instruments					
Swaps	RON 298,300 thousand	EUR 67,068 thousand	4.45	–	5,169
Total derivative financial assets and liabilities designated as hedging instruments				–	5,169
Derivative financial instruments				7,761	15,073

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

The Bank applies fair value hedge accounting for the RON-denominated bond issue placed on 27 September 2016 (Note 16).

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

As at 30 June 2018 and 31 December 2017, the 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 rates of the euro to transaction currencies.

(Thousands of euros)

8. Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income comprise:

	<i>30 June 2018</i> <i>(unaudited)</i>	<i>31 December</i> <i>2017</i>
<i>Owned by the Bank</i>		
Quoted debt securities at fair value through other comprehensive income		
Government bonds of non-member countries		
<i>Credit rating AAA</i>	–	4,066
<i>Credit rating from AA- to AA+</i>	11,398	–
<i>Credit rating AA+</i>	–	5,396
<i>Credit rating from A- to A+</i>	3,790	–
<i>Credit rating B-</i>	18,168	18,552
Government bonds	33,356	28,014
Corporate bonds:		
<i>Credit rating AAA</i>	17,434	–
<i>Credit rating from AA- to AA+</i>	3,441	–
<i>Credit rating from A- to A+</i>	30,103	12,292
<i>Credit rating from BBB- to BBB+</i>	30,489	20,370
<i>Credit rating from BB- to BB+</i>	59,478	62,496
<i>Credit rating from B- to B+</i>	–	13,817
Corporate bonds	140,945	108,975
Total quoted debt securities at fair value through other comprehensive income	174,301	136,989
Quoted equity instruments at fair value through other comprehensive income		
Corporate shares:		
<i>Credit rating A-</i>	–	633
<i>Credit rating BBB</i>	–	1,077
<i>No credit rating</i>	5	5
Corporate shares	5	1,715
Investments in equity instruments:		
<i>Investments in the Fund</i>	502	–
Investments in equity instruments	502	–
Total quoted equity instruments at fair value through other comprehensive income	507	1,715
Securities at fair value through other comprehensive income	174,808	138,704
<i>Pledged under repurchase agreements</i>		
Quoted debt securities at fair value through other comprehensive income		
Government bonds:		
Government bonds of member countries		
<i>Credit rating A+</i>	1,144	10,010
Government bonds of non-member countries		
<i>Credit rating A-</i>	7,676	7,867
Government bonds	8,820	17,877
Corporate bonds:		
<i>Credit rating AAA</i>	–	19,991
<i>Credit rating from AA- to AA+</i>	–	7,466
<i>Credit rating from A- to A+</i>	10,218	18,544
<i>Credit rating from BBB- to BBB+</i>	–	5,995
<i>Credit rating from BB- to BB+</i>	–	6,850
Corporate bonds	10,218	58,846
Total quoted debt securities at fair value through other comprehensive income pledged under repurchase agreements	19,038	76,723

(Thousands of euros)

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

All securities at fair value through other comprehensive income are included in Stage 1. The movements in the allowance for ECL for the six months ended 30 June 2018 were as follows:

Allowance for ECL at 1 January 2018	440
New purchased or originated assets	65
Assets derecognized or redeemed	(199)
Allowance for ECL at 30 June 2018 (unaudited)	306

Government bonds comprise EUR- and USD-denominated securities issued and guaranteed by the Ministries of Finance of these countries. The bonds mature in 2023-2027 (31 December 2017: 2020-2027). The coupon rate for these bonds varies from 0.4% to 7.6% (31 December 2017: from 0.4% to 7.6%).

Corporate bonds comprise bonds issued by large companies and banks of the member countries of the Bank, as well as international companies and development banks with goals and missions similar to those of the Bank. The bonds mature in 2020-2028 (31 December 2017: 2020-2026). The coupon rate for these bonds varies from 0.1% to 7.8% (31 December 2017: from 0.4% to 7.9%).

Equity securities comprise shares issued by a major international company.

Investments in the Fund comprise investments in the Central Europe Fund of Funds (CEFoF, or the "Fund") established by the European Investment Fund (EIF), a member of the European Investment Bank (EIB), together with governments and national development banks of five countries, including the Republic of Austria, Hungary, the Slovak Republic, Slovenia and the Czech Republic. The Fund is primarily engaged in stimulating equity investments in SMEs and creating market infrastructure that would promote such investments, as well as attracting institutional investors and investment managers to the Central Europe.

9. Securities at amortized cost

As at 1 January 2018, the Bank reclassified a part of its securities previously classified as 'available for sale' to 'debt instruments measured at amortized cost'. These instruments satisfy the SPPI criterion and are held to collect related cash flows rather than for sale.

	30 June 2018 (unaudited)	31 December 2017
Owned by the Bank		
Quoted debt securities at amortized cost		
Corporate bonds:		
Credit rating AAA	13,395	—
Credit rating AA	888	—
Credit rating BBB-	15,100	—
Corporate bonds	29,383	—
Total quoted debt securities at amortized cost	29,383	—
Pledged under repurchase agreements		
Quoted debt securities at amortized cost		
Corporate bonds:		
Credit rating AAA	8,487	—
Credit rating AA	3,552	—
Corporate bonds	12,039	—
Total quoted debt securities at amortized cost pledged under repurchase agreements	12,039	—

Corporate bonds comprise investment grade bonds issued by large companies and banks of the member countries of the Bank, as well as international companies and development banks with goals and missions similar to those of the Bank. The bonds mature in 2021-2026 (31 December 2017: none). The coupon rate for these bonds varies from 1.8% to 2.1% (31 December 2017: none). No allowances for ECL were made.

(Thousands of euros)

10. Loans to banks

During 2018 the Bank continued its lending activities, in accordance with the key priorities of the IIB Development Strategy. The principal lending activity is to participate in financing of socially important infrastructure projects in the member countries and to facilitate the development of small and medium-sized businesses in these countries. The 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 2018 and in 2017, the Bank provided trade financing loans and long-term loans to borrowers operating in the following countries:

	<i>30 June 2018 (unaudited)</i>	<i>31 December 2017</i>
Trade financing loans		
Republic of Belarus	34,866	3,239
Russian Federation	–	23,298
Trade financing loans	34,866	26,537
Long-term loans to banks		
Mongolia	56,470	33,735
Republic of Cuba	49,909	49,863
Socialist Republic of Vietnam	25,309	25,252
Russian Federation	14,377	75,401
Long-term loans to banks	146,065	184,251
Less: allowance for impairment of loans to banks	(16,815)	(9,153)
Total loans to banks	164,116	201,635

Changes in the allowances for ECL for the six months ended 30 June 2018 are presented in the table below:

<i>Trade financing loans</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Allowance for ECL at 1 January 2018	114	–	–	114
New purchased or originated assets	586	–	–	586
Assets derecognized or redeemed (excluding write-offs)	(349)	–	–	(349)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Effect on ECL at the year-end due to transfers between stages during the year	–	–	–	–
Amounts written off (against the allowance)	–	–	–	–
Translation differences	–	–	–	–
At 30 June 2018 (unaudited)	351	–	–	351
<i>Long-term loans to banks</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Allowance for ECL at 1 January 2018	2,633	–	15,254	17,887
New purchased or originated assets	593	–	–	593
Assets derecognized or redeemed (excluding write-offs)	(789)	–	–	(789)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(350)	350	–	–
Transfers to Stage 3	–	–	–	–
Effect on ECL at the year-end due to transfers between stages during the year	–	1,486	–	1,486
Amounts written off (against the allowance)	–	(1,836)	–	(1,836)
Translation differences	–	–	(877)	(877)
At 30 June 2018 (unaudited)	2,087	–	14,377	16,464

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

The information on overdue loans as at 30 June 2018 and 31 December 2017 is provided below:

	<i>30 June 2018</i> <i>(unaudited)</i>	<i>31 December</i> <i>2017</i>
Total loans with overdue principal and/or interest	14,377	15,254
Less: allowance for impairment of loans to banks	(14,377)	(9,153)
Overdue loans to banks	–	6,101

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

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(Thousands of euros)

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

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

	<i>Russian Federation</i>	<i>Mongolia</i>	<i>Socialist Republic of Vietnam</i>	<i>Republic of Cuba</i>	<i>Other</i>	<i>Total</i>
At 31 December 2017	9,153	–	–	–	–	9,153
Impact of adopting IFRS 9	6,705	1,295	291	539	18	8,848
At 1 January 2018	15,858	1,295	291	539	18	18,001
Net (reversal)/charge for the period	(604)	(30)	(14)	5	2,170	1,527
Write off against previously accrued allowance	–	–	–	–	(1,836)	(1,836)
Change in allowance resulting from changes in exchange rates	(877)	–	–	–	–	(877)
At 30 June 2018 (unaudited)	14,377	1,265	277	544	352	16,815
Individual impairment	14,377	–	–	–	–	14,377
Gross amount of loans to banks individually determined to be impaired, before deducting any individually assessed impairment allowance	14,377	–	–	–	–	14,377

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

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

The following table provides an analysis of the portfolio of trade financing loans and long-term loans to banks by type of collateral as at 30 June 2018 and 31 December 2017:

	30 June 2018 (unaudited)		31 December 2017	
	<i>Loans to banks net of allowance for impairment</i>	<i>Share in the total loans, %</i>	<i>Loans to banks net of allowance for impairment</i>	<i>Share in the total loans, %</i>
State guarantees	49,366	30.1	49,863	24.7
Uncollateralized part of the loans	114,750	69.9	151,772	75.3
	164,116	100.0	201,635	100.0

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

Concentration of long-term loans to banks

As at 30 June 2018, long-term loans and trade financing loans to five banks (31 December 2017: two banks) with a total amount of loans to each of them exceeding 10% of total loans to banks were recorded on the Bank's balance sheet. As at 30 June 2018, the total amount of such major loans was EUR 132,496 thousand (31 December 2017: EUR 70,100 thousand) and allowances of EUR 1,577 thousand (31 December 2017: nil) were made for them.

11. Loans to customers

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

	30 June 2018 (unaudited)	31 December 2017
Republic of Bulgaria	116,712	57,995
Russian Federation	101,950	81,817
Slovak Republic	89,923	60,464
Romania	85,440	78,440
Czech Republic	50,053	49,967
Republic of Ecuador	33,066	34,763
Hungary	29,808	42,910
Republic of Panama	29,605	29,775
Mongolia	24,277	24,425
Kingdom of the Netherlands	5,693	5,847
United States of America	1,625	1,666
Gross loans to customers	568,152	468,069
Less: allowance for impairment of loans to customers	(22,525)	(5,555)
Loans to customers	545,627	462,514

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

Changes in the allowances for ECL for the six months ended 30 June 2018 are presented in the table below:

<i>Loans to customers</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Allowance for ECL at 1 January 2018	5,336	3,610	15,151	24,097
New purchased or originated assets	1,119	6	–	1,125
Assets derecognized or redeemed (excluding write-offs)	(4,014)	–	–	(4,014)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Effect on ECL at the year-end due to transfers between stages during the year	–	–	–	–
Changes to models and inputs used for ECL calculations	–	1,317	–	1,317
Amounts written off (against the allowance)	–	–	–	–
Translation differences	–	–	–	–
At 30 June 2018 (unaudited)	2,441	4,933	15,151	22,525

A summary of overdue loans as at 30 June 2018 and 31 December 2017 is presented below:

	<i>30 June 2018 (unaudited)</i>	<i>31 December 2017</i>
Total loans with overdue principal and/or interest	15,151	15,151
Less: allowance for loan impairment	(15,151)	(5,255)
Overdue loans to customers	–	9,896

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

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(Thousands of euros)

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

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

	<i>Russian Federation</i>	<i>Republic of Bulgaria</i>	<i>Romania</i>	<i>Slovak Republic</i>	<i>Hungary</i>	<i>Mongolia</i>	<i>Other</i>	<i>Total</i>
At 31 December 2017	–	300	5,255	–	–	–	–	5,555
Impact of adopting IFRS 9	64	3,752	10,261	454	3,333	370	308	18,542
At 1 January 2018	64	4,052	15,516	454	3,333	370	308	24,097
Net (reversal)/charge for the period	23	1,407	154	53	(3,040)	(21)	(148)	(1,572)
At 30 June 2018 (unaudited)	87	5,459	15,670	507	293	349	160	22,525
Individual impairment	–	–	15,151	–	–	–	–	15,151
Gross amount of loans to customers individually determined to be impaired, before deducting any individually assessed impairment allowance	–	–	15,151	–	–	–	–	15,151

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

(Thousands of euros)

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

The following table provides an analysis of the customer loan portfolio, net of allowance for impairment, by types of collateral as at 30 June 2018 and 31 December 2017:

	30 June 2018 (unaudited)		31 December 2017	
	<i>Loans to customers net of allowance for impairment</i>	<i>Share in the total loans, %</i>	<i>Loans to customers net of allowance for impairment</i>	<i>Share in the total loans, %</i>
Pledge of real property (mortgage) and title	103,093	18.9	86,728	18.8
Corporate guarantees	98,393	18.0	70,599	15.3
Pledge of shares	96,507	17.7	42,504	9.2
State guarantees	62,535	11.5	74,476	16.1
Pledge of equipment and goods in turnover	15,115	2.8	15,292	3.3
Pledge of vehicles	9,830	1.8	1,476	0.3
Pledge of rights of claim	5,327	1.0	6,150	1.3
Uncollateralized part of the loans	154,827	28.3	165,289	35.7
Total loans to customers	545,627	100.0	462,514	100.0

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

Concentration of loans to customers

As at 30 June 2018, loans to two borrowers (31 December 2017: three borrowers) with the total amount of loans to each of the two borrowers exceeding 10% of total loans to customers were recorded on the Bank's balance sheet. As at 30 June 2018, these loans comprised EUR 164,368 thousand (31 December 2017: EUR 181,256 thousand) in total and impairment allowances of EUR 249 thousand (31 December 2017: nil) were made for them.

Analysis of loans to customers by industry

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

	30 June 2018 (unaudited)	31 December 2017
Production and transmission of electricity	149,597	104,847
Leasing	128,724	116,910
Metal working industry	50,053	49,967
Communications	49,897	22,815
Crude oil refining	30,097	30,099
Advisory services	29,431	19,543
Food and beverage	22,736	25,662
Mining	21,430	20,632
Manufacturing of electrical equipment	21,297	21,159
Real estate	19,267	19,722
Production of pharmaceutical products	13,182	11,319
Agriculture	11,970	13,408
Transport	10,757	11,248
Oil and gas production	9,714	—
Trading	—	738
	568,152	468,069
Less: allowance for impairment of loans to customers	(22,525)	(5,555)
Loans to customers	545,627	462,514

*(Thousands of euros)***12. Other assets and liabilities**

Other assets comprise:

	<i>30 June 2018 (unaudited)</i>	<i>31 December 2017</i>
Financial assets		
Settlements on bank transactions	2,006	2,007
Guarantee payments	25	26
Accounts receivable on business operations	40	72
Other financial assets	201	260
	2,272	2,365
Less: allowance for impairment of other financial assets	(1,565)	(1,639)
Total financial assets	707	726
Non-financial assets		
Advances issued	1,076	976
Assets held for sale – real estate	89	89
Other non-financial assets	926	615
Total non-financial assets	2,091	1,680
Total other assets	2,798	2,406

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

	<i>30 June 2018 (unaudited)</i>	<i>31 December 2017</i>
Allowance in accordance with IFRS 39	1,639	1,812
Impact of adopting IFRS 9	5	–
Allowance at 1 January	1,644	1,812
New purchased or originated assets	20	–
Assets derecognized or redeemed	(19)	(27)
Change in allowance resulting from changes in exchange rates	(80)	(146)
Allowance at the end of the period	1,565	1,639

Other liabilities comprise:

	<i>30 June 2018 (unaudited)</i>	<i>31 December 2017</i>
Financial liabilities		
Other accounts payable on business operations	993	1,117
Other accounts payable on bank transactions	880	1,125
Other financial liabilities	–	8
Total financial liabilities	1,873	2,250
Non-financial liabilities		
Settlements with employees	4,142	4,046
Allowances for expected credit losses on credit-related commitments	1,231	–
Other non-financial liabilities	342	178
Total non-financial liabilities	5,715	4,224
Total other liabilities	7,588	6,474

(Thousands of euros)

13. Allowances for credit losses, other impairment losses and provisions

The table below shows the allowances for ECL on financial instruments recorded in profit or loss for the six months ended 30 June 2018:

	<i>Note</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Cash and cash equivalents	5	(7)	–	–	(7)
Deposits with banks and other financial institutions	6	(241)	–	–	(241)
Securities at fair value through other comprehensive income	8	(134)	–	–	(134)
Securities at amortized cost	9	–	–	–	–
Loans to banks	10	(309)	1,836	–	1,527
Loans to customers	11	(2,895)	1,323	–	(1,572)
Other financial assets	12	1	–	–	1
Other non-financial liabilities (credit-related commitments)	12, 18	368	(1)	–	367
Total (income)/loss on impairment		(3,217)	3,158	–	(59)

The changes in the allowance for ECL on financial instruments for the six months ended 30 June 2018 were as follows:

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Allowance for ECL at 1 January 2018	9,574	3,678	67,000	80,252
New purchased or originated assets	3,811	6	–	3,817
Assets derecognized or redeemed (excluding write-offs)	(6,677)	(1)	–	(6,678)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(350)	350	–	–
Transfers to Stage 3	–	–	–	–
Effect on ECL at the year-end due to transfers between stages during the year	–	1,486	–	1,486
Changes to models and inputs used for ECL calculations	–	1,317	–	1,317
Amounts written off	–	(1,836)	–	(1,836)
Translation differences	–	–	(947)	(947)
At 30 June 2018	6,358	5,000	66,053	77,411

As at 30 June 2018, on the Bank's balance sheet there were no other allowances except for those mentioned above.

14. Due to banks and other financial institutions

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

	<i>30 June 2018 (unaudited)</i>	<i>31 December 2017</i>
Due to banks up to 1 year		
Term deposits of banks and other financial institutions	59,771	3,496
Total due to banks up to 1 year	59,771	3,496
Due to banks over 1 year		
Repurchase agreements	25,170	62,015
Total due to banks over 1 year	25,170	62,015
Total due to banks	84,941	65,511

*(Thousands of euros)***14. Due to banks and other financial institutions (continued)**

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

Concentration of amounts due to banks and other financial institutions

As at 30 June 2018, the Bank has three counterparties (31 December 2017: two counterparties) accounting for over 10% of the Bank's total amounts due to banks and other financial institutions. Resources raised from these counterparties amounted to EUR 75,062 thousand (31 December 2017: EUR 62,015 thousand).

15. Long-term loans of banks

Long-term loans of banks comprise:

	<i>30 June 2018 (unaudited)</i>	<i>31 December 2017</i>
Loans of banks	23,133	12,898
SSD	22,944	22,939
Syndicated loans	–	59,755
Total long-term loans of banks	46,077	95,592

On 19 March 2018, the Bank received the first tranche from the BRICS New Development Bank in the amount of USD 12.5 million (EUR 10,237 thousand) under the loan agreement of USD 50 million.

In 2017, the Bank issued SSD debentures (Schuldscheindarlehen) in the Western European market in the total amount of EUR 23,000 thousand.

On 3 August 2017, the Bank raised bilateral financing in the Hungarian financial market in the amount of HUF 4.0 billion (EUR 13,185 thousand).

16. Debt securities issued

Debt securities issued comprise:

	<i>Interest rate, % p.a.</i>	<i>Maturity</i>	<i>30 June 2018 (unaudited)</i>	<i>31 December 2017</i>
RUB-denominated bonds	0.01-9.5	2024-2027	306,942	267,112
RON-denominated bonds	3.4-4.5	2018-2020	154,783	152,084
EUR-denominated bonds	1.59-3.5	2019-2020	91,092	90,017
CZK-denominated bonds	1.5	2021	28,936	–
Total bonds			581,753	509,213

On 26 April 2018, the Bank placed bonds on the Czech market in the amount of CZK 501.1 million (EUR 19,832 thousand) maturing in three years. The interest rate on bonds was set at 3m Pribor+ 0.55% p.a.

On 30 May 2018, the Bank made a secondary placement of RUB-denominated bonds, series 03, in the amount of RUB 3.99 RUB billion (EUR 55,120 thousand) that had been repurchased in 2017 under the offer. A new coupon rate of 7.6% p.a. was set, with an offer planned for November 2018.

On 4 June 2018, the Bank additionally placed bonds on the Czech market in the amount of CZK 249.7 million (EUR 9,675 thousand) maturing in three years. The interest rate on bonds was set at 3m Pribor+ 0.50% p.a.

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

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. A new coupon rate of 0.01% was set for the remaining bonds of this issue.

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) and provides for an offer in March 2020. The coupon rate on the bonds was set at 8.75% payable on a quarterly basis with the first coupon payment to be made on 11 September 2017.

The Bank placed a third issue of bonds in the Romanian stock market on 25 September 2017. The issue comprises two tranches of EUR 60 million and RON 300 million (EUR 65,199 thousand) maturing in three years. EUR-denominated bonds and RON-denominated bonds bear interest rates of 1.593% p.a. and 3m Robor + 1.50%, respectively.

The Bank partially redeemed RUB-denominated bonds, series 01, worth a total of RUB 489,432 thousand (EUR 7,259 thousand) on 27 October 2017, as scheduled under the offer. A new coupon rate of 0.01% was set for the remaining bonds of this issue.

The Bank redeemed and made a secondary placement of bonds, series 04, worth RUB 1.2 billion (EUR 18,271 thousand) on 21 November 2017, as scheduled under the offer. A new coupon rate of 8.15% was set.

At the dates of placement of bonds, the Bank entered into cross-currency interest rate swaps for the purpose of managing currency risks (Note 7) and exchanging interest expense from debt securities issued, denominated in RUB, RON, to the currency required by the Bank (EUR, USD) to finance credit projects in the required currency. The Bank applies hedge accounting for the fair value of the bond issue in Romanian lei placed on 27 September 2016. The effects of using cross-currency interest rate swaps and fair value hedge operations are disclosed in Note 20.

The Bank primarily used the proceeds from issuance of debt instruments and placement of bonds to expand its loan portfolio.

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

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

As at 30 June 2018, the unpaid portion of the Bank's subscribed capital in the amount of EUR 985,038 thousand (31 December 2017: EUR 985,038 thousand) is the amount of contributions that have not been made yet by the Bank's member countries and the amount of unallocated equity contributions totaling EUR 175,500 thousand (31 December 2017: EUR 175,500 thousand).

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

The paid-in capital of the International Investment Bank totaled EUR 314,962 thousand (31 December 2017: EUR 314,962 thousand).

*(Thousands of euros)***17. Equity (continued)****Revaluation reserve for securities at fair value through other comprehensive income and revaluation reserve for property and equipment**

The changes in the revaluation reserve for securities at fair value through other comprehensive income and revaluation reserve for property and equipment were as follows:

	<i>Revaluation reserve for securities</i>	<i>Revaluation reserve for property and equipment</i>
At 1 January 2017	(1,506)	12,945
Net unrealized gains on available-for-sale securities	4,824	–
Realized gains on available-for-sale securities reclassified to the income statement	(4,553)	–
At 30 June 2017 (unaudited)	(1,235)	12,945
At 31 December 2017	240	13,748
Impact of adopting IFRS 9	2,043	–
At 1 January 2018	2,283	13,748
Net unrealized gains on securities at fair value through other comprehensive income	(4,542)	–
Change in the allowance for expected credit losses related to securities through other comprehensive income	306	–
Realized gains on securities at fair value through other comprehensive income, reclassified to the income statement	(2,238)	–
Losses from revaluation of equity securities at fair value through other comprehensive income	(48)	–
At 30 June 2018 (unaudited)	(4,239)	13,748

Revaluation reserve for securities at fair value through other comprehensive income

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

Revaluation reserve for property and equipment

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

18. Commitments and contingencies**Legal**

In the ordinary course of business, the 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.

(Thousands of euros)

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

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

Taxation

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

Credit-related commitments

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 2018, credit-related commitments of the Bank comprised off-balance credit-related commitments, in particular undrawn loan facilities, guarantees and reimbursement obligations. The primary purpose of credit-related commitments is to ensure that funds are available to customers as required. Guarantees issued, which represent irrevocable assurances that the 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 foreign partner banks up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing. Undrawn loan facilities represent unused portions of funds to be issued as loans.

Off-balance credit-related commitments are presented in the table below as at 30 June 2018 and 31 December 2017.

	<i>30 June 2018 (unaudited)</i>	<i>31 December 2017</i>
Undrawn loan facilities	137,722	116,161
Guarantees issued	70,670	15,425
Reimbursement obligations	16,786	32,812
	225,178	164,398
Less: allowance for impairment of the off-balance sheet credit related commitments	(1,231)	–
Total credit-related commitments	223,947	164,398

The table below shows the analysis of changes in the allowances for ECL for the six months ended 30 June 2018:

<i>Guarantees issued</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Allowance for ECL at 1 January 2018	54	–	–	54
New purchased or originated assets	849	–	–	849
Assets derecognized or redeemed (excluding write-offs)	(249)	–	–	(249)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Effect on ECL at the year-end due to transfers between stages during the year	–	–	–	–
Amounts written off (against the allowance)	–	–	–	–
Translation differences	–	–	–	–
At 30 June 2018 (unaudited)	654	–	–	654

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

<i>Undrawn loan facilities</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Allowance for ECL at 1 January 2018	340	68	–	408
New purchased or originated assets	253	–	–	253
Assets derecognized or redeemed (except for write-offs)	(328)	(1)	–	(329)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Effect on ECL at the year-end due to transfers between stages during the year	–	–	–	–
Amounts written off (against the allowance)	–	–	–	–
Translation differences	–	–	–	–
At 30 June 2018 (unaudited)	265	67	–	332

<i>Reimbursement obligations</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Allowance for ECL at 1 January 2018	402	–	–	402
New purchased or originated assets	272	–	–	272
Assets derecognized or redeemed (except for write-offs)	(429)	–	–	(429)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Effect on ECL at the year-end due to transfers between stages during the year	–	–	–	–
Amounts written off (against the allowance)	–	–	–	–
Translation differences	–	–	–	–
At 30 June 2018	245	–	–	245

19. Leases**Bank as lessor**

The Bank provides its investment property for operating leases. As at 30 June 2018, the Bank's non-cancellable operating lease rentals amount to EUR 3,744 thousand (31 December 2017: EUR 6,819 thousand) and will be settled during the period from 1 month to 4.4 years (31 December 2017: 1 to 5 years).

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(Thousands of euros)

20. Interest income and interest expenses

Net interest income comprises:

	<i>30 June 2018</i> <i>(unaudited)</i>	<i>30 June 2017</i> <i>(unaudited)</i>
Interest income		
<i>Interest income calculated using the EIR method</i>		
Loans to customers	12,947	8,313
Loans to banks	4,644	3,077
Securities at fair value through other comprehensive income	2,782	3,120
Deposits with banks and other financial institutions, including cash and cash equivalents	771	1,632
Securities at amortized cost	457	–
Other	3	–
<i>Other interest income</i>		
Cross-currency interest rate swaps to manage long-term currency risks	7,943	8,697
Total interest income	29,547	24,839
Interest expenses		
<i>Interest expenses calculated using the EIR method</i>		
Debt securities issued	(15,492)	(11,932)
Long-term loans of banks	(1,197)	(1,235)
Funds raised under repurchase agreements	(626)	(971)
Current customer accounts	(90)	(120)
Due to banks and other financial institutions	(56)	(103)
Other	(15)	(3)
<i>Other interest expenses</i>		
Cross-currency interest rate swaps to manage long-term currency risks	(908)	(806)
Total interest expense	(18,384)	(15,170)
Net interest income	11,163	9,669

There was no interest income accrued on impaired loans for the six months ended 30 June 2018 (2017: EUR 122 thousand).

21. Net gains from operations in foreign currencies and with derivatives

Gains less losses from operations in foreign currencies and with derivatives comprised:

	<i>30 June 2018</i> <i>(unaudited)</i>	<i>30 June 2017</i> <i>(unaudited)</i>
Derivative financial instruments and operations with foreign currencies		
Net gains from dealing in foreign currencies and operations with derivatives	13,560	12,520
Net losses from revaluation of derivative financial instruments	(28,583)	(4,064)
Total derivative financial instruments and operations with foreign currencies	(15,023)	8,456
Fair value hedge operations		
Net gains/(losses) from revaluation of fair value hedge operations	624	(258)
Net losses from revaluation of hedged object	(834)	(204)
Total fair value hedge operations	(210)	(462)
Translation differences		
Net gains/(losses) from revaluation of assets and liabilities in foreign currencies	13,373	(8,835)
Net losses from operations in foreign currencies and with derivatives	(1,860)	(841)

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

General and administrative expenses comprise:

	<i>30 June 2018</i> <i>(unaudited)</i>	<i>30 June 2017</i> <i>(unaudited)</i>
Employee compensations and employment taxes	5,981	6,171
Depreciation of property, equipment and intangible assets	1,031	1,005
IT-expenses, inventory and occupancy expenses	897	845
Professional services	402	401
Expenses related to business travel, representative and accommodation expenses	275	292
Other	173	201
General and administrative expenses	8,759	8,915

23. Risk management**Risk management framework**

The Bank's risk management policy is based on the conservative assessment 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 assessment approach assumes that the Bank does not enter into potential transactions with high or undeterminable risk level, regardless of profitability.

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 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 and its integration into a system of limits and restrictions insuring the acceptable level of risk for aggregated positions, transparent distribution of total risk limit among the activities of the Bank.

(Thousands of euros)

23. Risk management (continued)**Risk management system (continued)**

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

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

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

The following table provides information on the credit quality of long-term loans to banks and trade financing loans (Note 10) and loans to customers (Note 11) as at 30 June 2018 and 31 December 2017:

<i>30 June 2018 (unaudited)</i>	<i>Loan amount</i>	<i>Allowance for impairment</i>	<i>Loan amount, including allowance for impairment</i>	<i>Impairment to loan amount ratio, %</i>
Trade financing loans				
Standard loans	34,866	(351)	34,515	1.0
Total trade financing loans	34,866	(351)	34,515	1.0
Long-term loans to banks				
Standard loans	131,688	(2,087)	129,601	1.6
Loans more than 90 days past due	14,377	(14,377)	–	100.0
Total long-term loans to banks	146,065	(16,464)	129,601	11.3
Loans to customers				
Standard loans	546,856	(2,765)	544,091	0.5
Restructured loans	6,145	(4,609)	1,536	75.0
Loans more than 90 days past due	15,151	(15,151)	–	100.0
Total loans to customers	568,152	(22,525)	545,627	4.0
Total loans	749,083	(39,340)	709,743	5.3

(Thousands of euros)

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

<i>31 December 2017</i>	<i>Loan amount</i>	<i>Allowance for impairment</i>	<i>Loan amount, including allowance for impairment</i>	<i>Impairment to loan amount ratio, %</i>
Trade financing loans				
Standard loans	26,537	–	26,537	–
Total trade financing loans	26,537	–	26,537	–
Long-term loans to banks				
Standard loans	168,997	–	168,997	–
Loans more than 90 days past due	15,254	(9,153)	6,101	60.0
Total long-term loans to banks	184,251	(9,153)	175,098	5.0
Loans to customers				
Standard loans	446,910	–	446,910	–
Restructured loans	6,008	(300)	5,708	5.0
Loans more than 90 days past due	15,151	(5,255)	9,896	34.7
Total loans to customers	468,069	(5,555)	462,514	1.2
Total loans	678,857	(14,708)	664,149	2.2

Where possible, the 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.

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

Main instrument of liquidity position management under the stable scenario is a Plan of Cash Flows defining the cash flow by balance sheet products/instruments and taking into account the plan of future financial operations. The Group determines the balance sheet gaps, payment schedule and need in financing of future operations based on the Plan of Cash Flows. As a result of application of these instruments, ALM Unit issues appropriate recommendations to responsible structural divisions.

The 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 due to liquidity reserves, namely securities recognized in 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 Group calculates its liquidity reserves as at the reporting date and for the next twelve monthly reporting dates (forecast). Liquidity buffer may be used to close the negative net position. As at 30 June 2018, the liquidity buffer amounts to EUR 72.9 million (31 December 2017: EUR 83.5 million).

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

The table below shows the contractual maturities of the Bank's off-balance credit-related commitments. In case of absence of contractual schedule of the credit related commitments, these obligations are included into the earliest date, at which the client can demand their execution.

	<i>30 June 2018</i> <i>(unaudited)</i>	<i>31 December</i> <i>2017</i>
Less than 1 month	137,390	25,835
1 to 3 months	5,054	72,744
3 months to 1 year	43,182	41,489
1 to 5 years	2,346	24,330
Over 5 years	35,975	—
Off-balance credit-related commitments	<u>223,947</u>	<u>164,398</u>

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(Thousands of euros)

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

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

	30 June 2018 (unaudited)							31 December 2017						
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Past due	Total	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Past due	Total
Assets														
Cash and cash equivalents	56,745	363	–	–	–	–	57,108	65,442	584	–	–	–	–	66,026
Deposits with banks and other financial institutions	–	–	–	34,296	–	–	34,296	5,026	7,097	25,034	8,732	–	–	45,889
Derivative financial assets	49	–	–	1,298	–	–	1,347	935	–	5,072	1,754	–	–	7,761
Securities at fair value through other comprehensive income	174,808	19,038	–	–	–	–	193,846	138,737	54,783	21,907	–	–	–	215,427
Securities at amortized cost	–	83	216	4,404	36,719	–	41,422	–	–	–	–	–	–	–
Loans to banks	10,300	8,411	30,822	103,903	10,680	–	164,116	1,322	53,491	49,786	90,935	–	6,101	201,635
Loans to customers	11,904	17,798	70,627	151,801	293,497	–	545,627	8,965	8,719	77,334	147,277	210,323	9,896	462,514
Other financial assets	454	15	171	67	–	–	707	487	57	19	163	–	–	726
Total assets	254,260	45,708	101,836	295,769	340,896	–	1,038,469	220,914	124,731	179,152	248,861	210,323	15,997	999,978
Liabilities														
Due to banks and other financial institutions	(49,889)	(35,052)	–	–	–	–	(84,941)	–	(30,982)	(34,059)	(470)	–	–	(65,511)
Current customer accounts	(8,659)	–	–	–	–	–	(8,659)	(8,593)	–	–	–	–	–	(8,593)
Derivative financial liabilities	(2,489)	(2,783)	(11,139)	(20,159)	–	–	(36,570)	–	(89)	(1,213)	(13,771)	–	–	(15,073)
Long-term loans of banks	–	(280)	–	(28,948)	(16,849)	–	(46,077)	–	(24)	(59,967)	(18,819)	(16,782)	–	(95,592)
Debt securities issued	(76)	(6,047)	(123,234)	(452,396)	–	–	(581,753)	–	(3,906)	(26,519)	(478,788)	–	–	(509,213)
Other financial liabilities	(1,173)	–	(654)	(46)	–	–	(1,873)	(864)	(953)	(396)	(37)	–	–	(2,250)
Total liabilities	(62,286)	(44,162)	(135,027)	(501,549)	(16,849)	–	(759,873)	(9,457)	(35,954)	(122,154)	(511,885)	(16,782)	–	(696,232)
Net position	191,974	1,546	(33,191)	(205,780)	324,047	–	278,596	211,457	88,777	56,998	(263,024)	193,541	15,997	303,746
Accumulated net position	191,974	193,520	160,329	(45,451)	278,596	278,596		211,457	300,234	357,232	94,208	287,749	303,746	

*(Thousands of euros)***23. 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 uses an assumption that the accuracy of assessment of maximum value at risk (confidence level) is 99%, and the time horizon is 10 days. The assessment of value at risk in relation to currency position of the Bank is carried out in 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 purposes depends on types of instruments: 250 days for currency and securities. In order to monitor the accuracy of assessment of the above-mentioned risks, the Bank carries out regular testing (back-testing) based on historical data, which allows evaluating the compliance of the risk assessment model with the actual market situation.

As at 30 June 2018 and 31 December 2017, final data on value at risk (VaR) assessment in relation to currency and price risks assumed by the Bank are represented as follows:

	30 June 2018 (unaudited)	31 December 2017
Fixed income securities price risk	936	1,005
Equity securities price risk	–	125
Currency risk	282	45

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

- ▶ Analysis based on value at risk assessment is correct in case current market conditions remain unchanged.
- ▶ Assessment of value at risk is sensitive to market liquidity in relation to a particular financial instrument, and the lack of liquidity may lead to biased volatility data.
- ▶ If a confidence level of 99% is used, losses exceeding the confidence range are not taken into account.
- ▶ 10-day time horizon implies the entire 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)

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

The Bank has assets and liabilities denominated in several foreign currencies. The financial position and the cash flows are exposed to the effects of fluctuations in foreign currency exchange rates. Non-monetary financial instruments and financial instruments denominated in functional currency are not exposed to currency risk. The Bank's exposure to currency risk as at 30 June 2018 and 31 December 2017 is presented below:

	30 June 2018 (unaudited)					31 December 2017				
	EUR	USD	RUB	Other currencies	Total	EUR	USD	RUB	Other currencies	Total
Non-derivative financial										
Assets										
Cash and cash equivalents	38,685	12,220	816	5,387	57,108	50,487	1,730	13,431	378	66,026
Deposits with banks and other financial institutions	34,296	–	–	–	34,296	28,936	16,953	–	–	45,889
Securities at fair value through other comprehensive income	95,184	90,083	8,579	–	193,846	111,516	102,202	–	1,709	215,427
Securities at amortized cost	15,101	26,321	–	–	41,422					
Long-term loans to banks	129,426	34,690	–	–	164,116	147,253	54,382	–	–	201,635
Loans to customers	320,023	106,019	80,440	39,145	545,627	247,804	108,254	64,097	42,359	462,514
Other financial assets	154	334	217	2	707	186	323	212	5	726
Total non-derivative financial assets	632,869	269,667	90,052	44,534	1,037,122	586,182	283,844	77,740	44,451	992,217
Liabilities										
Due to banks and other financial institutions	(70,180)	–	–	(14,761)	(84,941)	(34,608)	(29,337)	–	(1,566)	(65,511)
Current customer accounts	(8,545)	(114)	–	–	(8,659)	(8,481)	(112)	–	–	(8,593)
Long-term loans of banks	(22,944)	(10,938)	–	(12,195)	(46,077)	(82,694)	–	–	(12,898)	(95,592)
Debt securities issued	(91,108)	–	(306,942)	(183,703)	(581,753)	(90,017)	–	(267,112)	(152,084)	(509,213)
Other financial liabilities	(873)	–	(989)	(11)	(1,873)	(546)	(175)	(1,529)	–	(2,250)
Total non-derivative financial liabilities	(193,650)	(11,052)	(307,931)	(210,670)	(723,303)	(216,346)	(29,624)	(268,641)	(166,548)	(681,159)
Net balance sheet position (excluding derivative financial instruments)	439,219	258,615	(217,879)	(166,136)	313,819	369,836	254,220	(190,901)	(122,097)	311,058
Derivative financial instruments										
Claims	181,750	–	217,908	176,151	575,809	190,457	–	197,443	132,639	520,539
Liabilities	(371,996)	(224,507)	–	(14,529)	(611,032)	(296,697)	(220,909)	–	(10,245)	(527,851)
Net balance sheet position including derivative financial instruments	248,973	34,108	29	(4,514)	278,596	263,596	33,311	6,542	297	303,746

(Thousands of euros)

24. Fair value measurements

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

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

Fair value hierarchy

The 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 that use inputs which have a significant effect on the recognized fair value that are not based on observable market data.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability, and the level of the fair value hierarchy as explained above. The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 30 June 2018:

	<i>Level 1</i> <i>30 June</i> <i>2018</i> <i>(unaudited)</i>	<i>Level 2</i> <i>30 June</i> <i>2018</i> <i>(unaudited)</i>	<i>Level 3</i> <i>30 June</i> <i>2018</i> <i>(unaudited)</i>	<i>Total</i> <i>30 June</i> <i>2018</i> <i>(unaudited)</i>
Assets measured at fair value				
Derivative financial assets	–	1,347	–	1,347
Government bonds of member countries	41,919	–	–	41,919
Corporate bonds	151,114	–	–	151,114
Quoted equity instruments	–	5	–	5
Investment property	–	–	20,862	20,862
Property and equipment – buildings	–	–	67,054	67,054
Liabilities measured at fair value				
Derivative financial liabilities	–	36,570	–	36,570
Assets for which fair values are disclosed				
Cash and cash equivalents	363	56,745	–	57,108
Deposits with banks and other financial institutions	–	–	34,296	34,296
Securities at amortized cost	–	38,537	–	38,537
Loans to banks	–	–	161,448	161,448
Loans to customers	–	–	554,398	554,398
Liabilities for which fair values are disclosed				
Due to banks and other financial institutions	–	–	84,941	84,941
Current customer accounts	–	–	8,659	8,659
Long-term loans of banks	–	–	46,077	46,077
Debt securities issued	–	585,051	–	585,051

(Thousands of euros)

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2017:

	<i>Level 1</i> <i>2017</i>	<i>Level 2</i> <i>2017</i>	<i>Level 3</i> <i>2017</i>	<i>Total</i> <i>2017</i>
Assets measured at fair value				
Derivative financial assets	–	7,761	–	7,761
Government bonds of member countries	45,891	–	–	45,891
Corporate bonds	149,277	18,544	–	167,821
Quoted equity instruments	1,710	5	–	1,715
Investment property	–	–	21,853	21,853
Property and equipment – buildings	–	–	67,572	67,572
Liabilities measured at fair value				
Derivative financial liabilities	–	15,073	–	15,073
Assets for which fair values are disclosed				
Cash and cash equivalents	82	65,944	–	66,026
Deposits with banks and other financial institutions	–	–	45,889	45,889
Loans to banks	–	–	201,743	201,743
Loans to customers	–	–	465,973	465,973
Liabilities for which fair values are disclosed				
Due to banks and other financial institutions	–	–	65,511	65,511
Current customer accounts	–	–	8,593	8,593
Long-term loans of banks	–	–	95,592	95,592
Debt securities issued	–	514,893	–	514,893

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

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

	<i>Carrying amount 30 June 2018 (unaudited)</i>	<i>Fair value 30 June 2018 (unaudited)</i>	<i>Unrecognized gain/(loss) 30 June 2018 (unaudited)</i>	<i>Carrying amount 31 December 2017</i>	<i>Fair value 31 December 2017</i>	<i>Unrecognized gain/(loss) 31 December 2017</i>
Financial assets						
Cash and cash equivalents	57,108	57,108	–	66,026	66,026	–
Deposits with banks and other financial institutions	34,296	34,296	–	45,889	45,889	–
Securities at amortized cost	41,422	38,537	(2,885)	–	–	–
Loans to banks	164,116	161,448	(2,668)	201,635	201,743	108
Loans to customers	545,627	554,398	8,771	462,514	465,973	3,459
Financial liabilities						
Due to banks and other financial institutions	84,941	84,941	–	65,511	65,511	–
Current customer accounts	8,659	8,659	–	8,593	8,593	–
Long-term loans of banks	46,077	46,077	–	95,592	95,592	–
Debt securities issued	581,753	585,051	(3,298)	509,213	514,893	(5,680)
Total unrecognized change in unrealized fair value			(80)			(2,113)

(Thousands of euros)

25. Segment information

For management purposes, the 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.
Treasury	Operations in financial markets, transactions with securities, derivative financial instruments and foreign currency, and liquidity management.
Other operations	Operational leasing services, other operations.

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

<i>30 June 2018 (unaudited)</i>	<i>Credit investment activity</i>	<i>Treasury</i>	<i>Other operations</i>	<i>Total</i>
Income				
External customers				
Interest income	17,592	11,943	12	29,547
Fee and commission income	870	–	–	870
Net gains from operations with securities at fair value through profit or loss	–	92	–	92
Net gains from operations with securities at fair value through other comprehensive income	–	2,238	–	2,238
Dividend income	–	6	–	6
Income from lease of investment property	–	–	2,032	2,032
Reversal of allowance for impairment of other assets	(398)	382	76	60
Other segment income	232	–	221	453
Total income	18,296	14,661	2,341	35,298
Interest expenses	(10,456)	(7,928)	–	(18,384)
Fee and commission expense	(31)	(82)	(102)	(215)
Net losses from dealing in foreign currencies and operations with derivatives	–	(1,844)	(16)	(1,860)
Net charge of allowance for credit losses from impairment of other financial assets	–	–	(1)	(1)
Other segment expenses	–	–	(987)	(987)
Segment results	7,809	4,807	1,235	13,851
Other unallocated expenses				(8,759)
Profit for the period				5,092
Development portfolio	711,276	100,379	–	811,655
Other segment assets	–	227,103	94,378	321,481
Total segment assets	711,276	327,482	94,378	1,133,136
Total segment liabilities	394,441	365,562	5,585	765,588
Other segment information				
Capital expenditures	–	–	683	683

The Bank's management separates the "Development portfolio" assets allocated within operating segments. The criteria of separation is orientation of the assets on the fulfilling of the 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)

25. Segment information (continued)

<i>30 June 2017 (unaudited)</i>	<i>Credit investment activity</i>	<i>Treasury</i>	<i>Other operations</i>	<i>Total</i>
Income				
External customers				
Interest income	11,390	13,435	14	24,839
Fee and commission income	302	–	–	302
Net gains from available-for-sale investment securities	–	4,553	–	4,553
Income from lease of investment property	–	–	2,049	2,049
Reversal of allowance for impairment of other assets	–	–	27	27
Other segment income	2	–	37	39
Total income	11,694	17,988	2,127	31,809
Interest expenses	(7,313)	(7,857)	–	(15,170)
Fee and commission expense	(9)	(60)	(79)	(148)
Net losses from dealing in foreign currencies and operations with derivatives	–	(852)	11	(841)
Allowance for impairment of financial assets	(3,781)	–	–	(3,781)
Other segment expenses	(89)	(83)	(477)	(649)
Segment results	502	9,136	1,582	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

During the six months of 2018, the Bank's revenue from lease operations with two external counterparties (30 June 2017: two external counterparties) exceeded 20% of the Bank's total revenue (six months ended 30 June 2018: EUR 1,408 thousand; six months ended 30 June 2017: EUR 1,511 thousand).

Geographical information

Allocation of the Bank's revenue from transactions with external customers and non-current assets based on the location of these customers and assets for the years ended 30 June 2018 and 30 June 2017 is presented in the table below:

	<i>30 June 2018 (unaudited)</i>				<i>30 June 2017 (unaudited)</i>			
	<i>Russia</i>	<i>Other member countries</i>	<i>Other countries</i>	<i>Total</i>	<i>Russia</i>	<i>Other member countries</i>	<i>Other countries</i>	<i>Total</i>
Interest income calculated using the EIR method	4,567	12,326	4,700	21,593	4,130	7,035	4,977	16,142
Other interest income	3,756	161	4,026	7,943	330	175	8,192	8,697
Income from lease of investment property	1,527	85	–	1,612	1,942	107	–	2,049
Non-current assets (investment property)	7,534	13,328	–	20,862	7,536	14,324	–	21,860

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

(Thousands of euros)

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

The geographical concentration of the Bank's assets and liabilities based on the location of the Bank's counterparties as at 30 June 2018 and 31 December 2017 is presented below:

	30 June 2018 (unaudited)										
	Russian Federation	Republic of Bulgaria	Romania	Slovak Republic	Hungary	Mongolia	Socialist Republic of Vietnam	Czech Republic	Republic of Cuba	Other countries	Total
Assets											
Cash and cash equivalents	975	805	329	11,255	–	–	–	5	–	43,739	57,108
Deposits with banks and other financial institutions	11,326	–	–	–	–	–	–	–	–	22,970	34,296
Derivative financial assets	49	–	–	–	–	–	–	–	–	1,298	1,347
Securities at fair value through other comprehensive income	12,476	14,980	10,002	1,144	–	–	–	34,495	–	120,749	193,846
Securities at amortized cost	–	–	–	–	–	–	–	–	–	41,422	41,422
Long-term loans to banks	–	–	–	–	–	55,205	25,031	–	49,366	34,514	164,116
Loans to customers	101,863	111,253	69,770	89,415	29,515	23,927	–	50,053	–	69,831	545,627
Other financial assets	366	–	–	–	2	6	–	–	–	333	707
Assets	127,055	127,038	80,101	101,814	29,517	79,138	25,031	84,553	49,366	334,856	1,038,589
Liabilities											
Due to banks and other financial institutions	–	5,000	9,882	–	4,878	–	–	40,010	–	25,171	84,941
Derivative financial liabilities	12,769	–	1,106	–	–	–	–	–	–	22,695	36,570
Long-term loans of banks	–	–	–	–	12,195	–	–	–	–	33,882	46,077
Long-term securities issued	306,957	–	215,174	30,686	–	–	–	28,936	–	–	581,753
Other financial liabilities	1,021	758	–	–	–	83	–	–	–	11	1,873
Liabilities	320,747	5,758	226,162	30,686	17,073	83	–	68,946	–	81,759	751,214

(Thousands of euros)

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

	31 December 2017										
	Russian Federation	Republic of Bulgaria	Romania	Slovak Republic	Hungary	Mongolia	Socialist Republic of Vietnam	Czech Republic	Republic of Cuba	Other countries	Total
Assets											
Cash and cash equivalents	1,138	792	226	35	–	–	–	36	–	63,799	66,026
Deposits with banks and other financial institutions	3,082	–	–	–	–	32,132	–	–	–	10,675	45,889
Derivative financial assets	3,340	–	–	–	–	–	–	–	–	4,421	7,761
Available-for-sale investment securities	11,947	30,098	–	10,010	13,817	–	–	34,107	–	115,448	215,427
Loans to banks	89,545	–	–	–	–	33,735	25,252	–	49,863	3,240	201,635
Loans to customers	81,817	57,694	73,185	60,464	42,910	24,425	–	49,967	–	72,052	462,514
Other financial assets	380	6	–	–	5	5	–	1	–	329	726
Assets	191,249	88,590	73,411	70,509	56,732	90,297	25,252	84,111	49,863	269,964	999,978
Liabilities											
Due to banks and other financial institutions	1,460	–	–	7,508	–	–	–	1,566	–	54,977	65,511
Derivative financial liabilities	4,480	–	1,213	–	–	–	–	–	–	9,380	15,073
Long-term loans of banks	9,959	7,470	–	–	20,367	–	–	–	–	57,796	95,592
Long-term securities issued	266,191	–	212,869	30,153	–	–	–	–	–	–	509,213
Other financial liabilities	1,760	33	15	8	–	237	–	–	–	197	2,250
Liabilities	283,850	7,503	214,097	37,669	20,367	237	–	1,566	–	122,350	687,639

Other countries include non-member countries.

(Thousands of euros)

26. Related party disclosures

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

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

The volumes of related party transactions, outstanding balances as at 30 June 2018 and 31 December 2017, and related expenses and income for the six months ended 30 June 2018 and 2017 are as follows:

		30 June 2018 (unaudited)	31 December 2017
		Carrying amount	Carrying amount
		Related party	
Interim separate statement of financial position			
Current customer accounts	Key management personnel	1,342	1,420
Other liabilities	Key management personnel	624	593
Other liabilities	Subsidiary	401	354
		30 June 2018 (unaudited)	30 June 2017 (unaudited)
		Income/	Income/
		(expense)	(expense)
		Related party	
Interim separate income statement			
Interest expenses on current customer accounts	Key management personnel	(17)	(27)
Net interest expense after allowance for loan impairment		(17)	(27)
Expenses from operating activities		(17)	(27)
Employee benefits	Key management personnel	(836)	(669)
Compensation for travel expenses and medical insurance	Key management personnel	(36)	(32)
Professional services	Subsidiary	(254)	(277)
Operating expenses		(1,126)	(978)
Net loss for the period		(1,143)	(1,005)

27. Capital adequacy

Capital adequacy ratio is the most important financial indicator characterizing the sustainability of credit institutions and is estimated as the ratio of capital base to risk-weighted assets expressed as a percentage. Approval of the capital adequacy ratio is the exclusive competency of the Bank's Council.

The Basel Committee on Banking Supervision recommends maintaining the ratio of capital to risk-weighted assets ("capital adequacy ratio") above the prescribed minimum level. As of 30 June 2018, this minimum level was 8% (31 December 2017: 8%).

Taking into account the Bank's status as the multilateral development institution and the structure of the Bank's member countries and respective decision of the Council, the capital adequacy ratio was set at the level of not less than 25% as at 30 June 2018 (31 December 2017: 25%).

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

The following table shows the composition of the Bank's capital position computed in accordance with the Basel Accord (Basel II) as at 30 June 2018 and 31 December 2017.

	<i>30 June 2018 (unaudited)</i>	<i>31 December 2017</i>
Capital		
Tier 1 capital	350,902	380,443
Tier 2 capital	9,257	13,988
Total regulatory capital	360,159	394,431
Risk-weighted assets		
Credit risk	896,098	821,863
Market risk	147,615	177,273
Operational risk	41,472	43,411
Total risk-weighted assets	1,085,185	1,042,547
Total capital expressed as a percentage of risk-weighted assets, % ("capital adequacy ratio")	33.19%	37.83%
Total tier 1 capital expressed as a percentage of risk-weighted assets, % ("tier 1 capital adequacy ratio")	32.34%	36.49%

28. Subsequent events

On 12 July, the Government of Romania made a contribution of EUR 4,000 thousand to the Bank's share capital. As a result, the paid-in capital of the International Investment Bank amounted to EUR 318,962 thousand, and Romania increased its share in the paid-in capital to 7.04%.

(The end).