International Investment Bank

Interim condensed consolidated financial statements

30 June 2019

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Building a better
working world

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Report on Review of Interim Financial Information

To the Board of Governors of International Investment Bank

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of International Investment Bank and its subsidiary, which comprise the interim consolidated statement of financial position as at 30 June 2019, the interim consolidated income statement, interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the six-month period then ended, and selected explanatory notes (interim financial information). Management of International Investment Bank is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Conclusion

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

1 August 2019

Szabó Gergely
Partner
Ernst & Young Könyvvizsgáló Kft.
1132 Budapest, Váci út 20.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

(Thousands of euros)

	Note	*30 June 2019 (unaudited)*	*31 December 2018*
Assets			
Cash and cash equivalents	5	72,051	49,240
Deposits with banks and other financial institutions	6	29,356	47,396
Derivative financial assets	7	2,809	3,720
Securities at fair value through other comprehensive income	8	220,641	204,332
Securities at amortized cost	9	55,492	41,465
Securities at amortized cost pledged under repurchase agreements		19,101	–
Loans to banks	10	162,299	176,632
Loans to customers	11	613,212	576,203
Investment property		25,057	20,788
Property, equipment and intangible assets		70,975	71,266
Other assets	12	5,086	3,315
Total assets		**1,276,079**	**1,194,357**
Liabilities			
Due to banks and other financial institutions	14	74,164	67,872
Derivative financial liabilities	7	30,591	50,943
Current customer accounts		10,023	9,716
Long-term loans of banks	15	45,249	57,553
Debt securities issued	16	713,458	623,454
Other liabilities	12	9,981	8,820
Total liabilities		**883,466**	**818,358**
Equity	17		
Authorized capital		2,000,000	2,000,000
Less: unallocated capital		(875,500)	(875,500)
Subscribed capital		**1,124,500**	**1,124,500**
Less: callable capital		(794,888)	(798,538)
Paid-in capital		**329,612**	**325,962**
Revaluation reserve for securities at fair value through other comprehensive income		2,704	(7,366)
Revaluation reserve for property and equipment		13,748	13,748
Foreign currency translation reserve		(84)	(104)
Retained earnings less net income for the period		43,759	38,137
Net income for the period		2,874	5,622
Total equity		**392,613**	**375,999**
Total equity and liabilities		**1,276,079**	**1,194,357**

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

Nikolay Kosov — Chairperson of the Management Board

Elena Minduksheva — Deputy Director of the Finance Department

1 August 2019

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

INTERIM CONSOLIDATED INCOME STATEMENT

Six months ended 30 June 2019

(Thousands of euros)

	Note	*For the six months ended 30 June (unaudited)* 2019	2018
Interest income calculated using the EIR method	20	23,721	21,609
Other interest income	20	9,267	7,943
Interest expense calculated using the EIR method	20	(17,645)	(17,476)
Other interest expense	20	(4,169)	(908)
Net interest income		**11,174**	**11,168**
Net allowance for credit losses on financial instruments	5-6, 8, 10-11, 12-13, 18	276	62
Net interest income after allowance for loan impairment		**11,450**	**11,230**
Fee and commission income		673	870
Fee and commission expense		(144)	(115)
Net fee and commission income		**529**	**755**
Net losses from operations with foreign currencies and derivatives	21	(2,208)	(1,860)
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		1,715	2,238
Dividend income		–	6
Income from lease of investment property	19	1,582	2,032
Losses from revaluation of investment property		(891)	–
Other (expenses)/income		(448)	532
Net non-interest (expenses)/income		**(250)**	**3,040**
Operating income		**11,729**	**15,025**
General and administrative expenses	22	(8,545)	(8,903)
Cost of inventories sold		–	(48)
Other operating expenses on banking operations		(310)	(987)
Operating expenses		**(8,855)**	**(9,938)**
Net income for the period		**2,874**	**5,087**

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

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2019

(Thousands of euros)

	Note	For the six months ended 30 June (unaudited) 2019	2018
Net income for the period		**2,874**	**5,087**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net change in the fair value of debt instruments at fair value through other comprehensive income	17	10,023	(6,780)
Change in the allowance for expected credit losses related to securities at fair value through other comprehensive income	8	(64)	306
Translation differences		20	(17)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**9,979**	**(6,491)**
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods			
Income/(loss) on equity instruments at fair value through other comprehensive income		111	(48)
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		**111**	**(48)**
Other comprehensive income/(loss)		**10,090**	**(6,539)**
Total comprehensive income/(loss) for the period		**12,964**	**(1,452)**

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2019

(Thousands of euros)

	Authorized capital	*Unallocated capital*	*Callable capital*	*Revaluation reserve for securities*	*Revaluation reserve for property and equipment*	*Foreign currency translation reserve*	*Retained earnings*	*Total equity*
At 31 December 2017	**1,300,000**	**(175,500)**	**(809,538)**	**240**	**13,748**	**(76)**	**66,788**	**395,662**
Impact of adopting IFRS 9	–	–	–	2,043	–	–	(28,903)	**(26,860)**
At 1 January 2018	**1,300,000**	**(175,500)**	**(809,538)**	**2,283**	**13,748**	**(76)**	**37,885**	**368,802**
Profit for the period	–	–	–	–	–	–	5,087	**5,087**
Other comprehensive loss for the period	–	–	–	(6,522)	–	(17)	252	**(6,287)**
Total comprehensive income/(loss)	**–**	**–**	**–**	**(6,522)**	**–**	**(17)**	**5,339**	**(1,200)**
At 30 June 2018 (unaudited)	**1,300,000**	**(175,500)**	**(809,538)**	**(4,239)**	**13,748**	**(93)**	**43,224**	**367,602**
At 31 December 2018	**2,000,000**	**(875,500)**	**(798,538)**	**(7,366)**	**13,748**	**(104)**	**43,759**	**375,999**
Profit for the period	–	–	–	–	–	–	2,874	**2,874**
Other comprehensive income	–	–	–	10,070	–	20	–	**10,090**
Total comprehensive income	**–**	**–**	**–**	**10,070**	**–**	**20**	**2,874**	**12,964**
Contributions to capital (Note 17)	–	–	3,650	–	–	–	–	**3,650**
At 30 June 2019 (unaudited)	**2,000,000**	**(875,500)**	**(794,888)**	**2,704**	**13,748**	**(84)**	**46,633**	**392,613**

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2019

(Thousands of euros)

	Note	*For the six months ended 30 June (unaudited)* 2019	2018
Cash flows from operating activities			
Interest, fees and commissions received		16,177	19,371
Interest, fees and commissions paid		(437)	(666)
Realized gains less losses from operations with foreign currencies and derivatives		(12,916)	7,457
Cash flows from lease of investment property		1,582	2,032
General and administrative expenses		(6,703)	(7,750)
Other operating (expenses)/income on banking operations		6	(53)
Cash flows from operating activities before changes in operating assets and liabilities		**(2,291)**	**20,391**
Net (increase)/decrease in operating assets			
Deposits with banks and other financial institutions		18,059	20,255
Loans to banks		15,823	30,797
Loans to customers		(29,521)	(96,247)
Other assets		(479)	(280)
Net increase/(decrease) in operating liabilities			
Due to banks and other financial institutions		6,508	10,903
Current customer accounts		(283)	(570)
Other liabilities		(466)	(7,407)
Net cash flows from operating activities		**7,350**	**(22,158)**
Cash flows from investing activities			
Dividend income		–	6
Interest received		2,643	2,543
Purchase of securities at fair value through other comprehensive income		(138,245)	(189,836)
Proceeds from sale and redemption of securities at fair value through other comprehensive income		133,983	172,189
Purchase of securities at amortized cost		(32,832)	–
Proceeds from redemption of securities at amortized cost		274	253
Proceeds from sale of investment property / (investments in investment property)		627	1,074
Acquisition of property, equipment and intangible assets		(564)	(347)
Net cash flows from investing activities		**(34,114)**	**(14,118)**
Cash flows from financing activities			
Interest paid		(7,798)	(5,961)
Long-term interbank financing raised		505	10,172
Long-term interbank financing repaid		(12,713)	(60,455)
Debt securities issued		107,772	84,470
Redemption and repurchase of debt securities		(41,594)	–
Contributions to capital		3,650	–
Net cash flows from financing activities		**49,822**	**28,226**
Effect of exchange rate changes on cash and cash equivalents		(247)	(822)
Net increase/(decrease) in cash and cash equivalents		**22,811**	**(8,872)**
Cash and cash equivalents, beginning		49,240	66,097
Cash and cash equivalents, ending	5	**72,051**	**57,225**

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

(Thousands of euros)

1. Principal activities

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

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

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

Following the decision adopted by the Board of Governors in December 2018 the Bank's headquarters were relocated from Russia to Hungary. Since 30 April 2019 IIB operates from its headquarters in Hungary located at Vaci ut, 188, Budapest. At the same time the IIB Branch has begun to operate in Moscow (7 Mashi Poryvaevoy str., Moscow, Russian Federation).

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

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

- According to the Protocol Amending the Agreement Establishing the International Investment Bank and its Charter:
  - The Bank implemented the three-tier corporate governance structure and established new governing bodies, the Board of Governors and the Board of Directors;
  - The IIB's authorized charter capital increased from EUR 1.3 billion to EUR 2 billion;
- In March 2019, as part of the Capitalization Program for 2013-2017, Romania made an additional contribution to the IIB's authorized capital of EUR 3,65 million, which increased the total amount of the paid-in capital of the Bank to EUR 329,612 thousand;
- The Board of Governors approved a new IIB capitalization program for 2020-2022 in the total amount of EUR 200 million;
- On 7 March, 2019 S&P Global upgraded long-term rating of IIB to A- with a stable outlook. Thus, IIB has become an institution with an average rating at A level taking into account the Bank's ratings from Dagong and Moody's (in February 2018, Dagong Global Credit Rating upgraded IIB rating to A with a positive outlook; in April 2018, Moody's Investors Services upgraded IIB rating to A3, with a stable outlook);
- In March 2019, the Bank placed its 3-year debut HUF bond issue (in the amount of HUF 24.7 billion) listed on the Budapest Stock Exchange. This issue is the first HUF bond issue by an international financial organization in Hungary;
- In April 2019, IIB made an additional bond placement on the Prague and Vienna Stock Exchanges amounting to CZK 750 million (about EUR 29 million);
- IIB participated in the inaugural sovereign Dutch green bond issue confirming its "green investor" status and received recognition for support from Dutch State Treasury Agency;

(Thousands of euros)

1. Principal activities (continued)

- Bucharest Stock Exchange again recognized the significant contribution of IIB to the development of the Romanian capital market and awarded the Bank in one of the most reputable nominations – "Consistency in issuing bonds on the Romanian capital market".
- This is already the fifth award of this nature received by IIB for its contribution to the development of the Romanian capital market. As a result of the Bank's full-scale and innovative approach to the corporate governance system, IIB won the annual award "For Outstanding Development Projects" in the nomination of "Corporate Governance", held by the Association of Development Financing Institutions in Asia and the Pacific.

Member countries of the Bank

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

Member countries	*30 June 2019, % (unaudited)*	*31 December 2018, %*
Russian Federation	45.516	47.634
Republic of Bulgaria	12.804	13.399
Hungary	12.136	12.700
Czech Republic	11.339	9.644
Romania	7.920	5.859
Slovak Republic	6.517	6.820
Republic of Cuba	1.626	1.702
Socialist Republic of Vietnam	1.113	1.165
Mongolia	1.029	1.077
	100.000	**100.000**

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

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

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

Business environment in the member countries

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

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

2. Basis of preparation

General

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Bank's annual consolidated financial statements as at 31 December 2018.

(Thousands of euros)

2. Basis of preparation (continued)

Subsidiary

As at 30 June 2019, the Bank is parent company of the Group, which owns CJSC IIB Capital (the Bank's 100% subsidiary) established in 2012 to deal with issues related to IIB activities in Russia including provision of trustee services to the Bank. As at 30 June 2019, the authorized capital of the subsidiary is RUB 44.5 thousand (31 December 2018: RUB 44.5 thousand), which is equivalent to EUR 1.1 thousand at the historical exchange rate at the date of establishment of the subsidiary.

Basis of measurement

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

Functional and presentation currency

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

These interim condensed consolidated financial statements are presented in thousands of Euro ("thousands of euros"), unless otherwise indicated.

3. Summary of accounting policies

Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new Standards effective as of 1 January 2019. The nature and the effect of these changes are disclosed below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial statements of the Group.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The new standard had no impact on the Group's interim condensed consolidated financial statements.

(Thousands of euros)

4. Significant accounting judgments and estimates

Assumptions and estimation uncertainty

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

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

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

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2019 (unaudited)	*31 December 2018*
Cash on hand	**332**	**276**
Nostro accounts with banks and other financial institutions		
Credit rating from A- to A+	61,819	39,024
Credit rating from BBB- to BBB+	9,066	5,730
Credit rating from BB- to BB+	694	1,149
Total nostro accounts with banks and other financial institutions	**71,579**	**45,903**
Short-term deposits with banks		
Term deposits with banks		
Credit rating from A- to A+	–	3,061
Credit rating BBB-	140	–
Total short-term deposits with banks	**140**	**3,061**
Cash and cash equivalents	**72,051**	**49,240**

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

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

Allowance for ECL at 1 January 2019	–
New purchased or originated assets	2
Assets derecognized or redeemed	(3)
Changes to models and inputs used for ECL calculations	1
Allowance for ECL at 30 June 2019 (unaudited)	–

(Thousands of euros)

5. Cash and cash equivalents (continued)

An analysis of changes in the ECL allowances during the six months ended 30 June 2018 is as follows:

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

6. Deposits with banks and other financial institutions

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

	30 June 2019 (unaudited)	*31 December 2018*
Term deposits over 1 year		
Credit rating from AA- to AA+	1,990	900
Credit rating from A- to A+	16,920	24,180
Credit rating from BBB- to BBB+	7,626	16,876
Credit rating from BB- to BB+	2,820	5,440
Total term deposits over 1 year	**29,356**	**47,396**
Deposits with banks and other financial institutions	**29,356**	**47,396**

An analysis of changes in the ECL allowances during the six months ended 30 June 2018 is 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 2019, EUR 34,967 thousand (31 December 2018: EUR 34,967 thousand) were due to the Group from the Central Bank of Cuba. This amount was fully provisioned (31 December 2018: EUR 34,967 thousand).

Concentration of deposits with banks and other financial institutions

As at 30 June 2019, besides deposits with the Central Bank of Cuba, the Group had deposits of three counterparties (31 December 2018: four counterparties) accounting for over 10% of the Bank's total deposits with banks and other financial institutions and amounting to EUR 24,016 thousand (31 December 2018: EUR 42,956 thousand).

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(Thousands of euros)

7. Derivative financial instruments

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

The table below shows the fair value of derivative financial instruments as at 30 June 2019 and 31 December 2018 and notional amounts of term contracts for the purchase and sale of foreign currency specifying contractual exchange rates.

			30 June 2019 (unaudited)		
	Nominal amount		**Weighted average exchange rate**	*Fair value*	
	Purchase	*Sale*		*Assets*	*Liabilities*
Derivative financial assets and liabilities at fair value through profit or loss					
Swaps	RUB 9,000,000 thousand	EUR 137,285 thousand	65.73	303	9,686
	RON 757,800 thousand	EUR 166,289 thousand	4.56	274	4,452
	EUR 128,125 thousand	USD 148,770 thousand	1.16	245	4,615
	EUR 15,139 thousand	HUF 4,760,000 thousand	314.42	495	89
	EUR 14,492 thousand	RON 68,525 thousand	4.73	18	433
	EUR 57,281 thousand	RUB 4,355,000 thousand	76.03	–	3,895
	HUF 11,900,000 thousand	USD 43,139 thousand	275.85	–	2,012
	HUF 16,770,000 thousand	EUR 53,240 thousand	315.02	–	924
	USD 1,757 thousand	EUR 2,000 thousand	0.88	–	2
	CZK 1,500,000 thousand	EUR 58,749 thousand	25.53	1,425	–
	RUB 3,000,000 thousand	USD 52,910 thousand	56.70	–	3,923
Forwards	EUR 44,300 thousand	USD 51,012 thousand	1.15	49	559
	4,000 government bonds	EUR 4,000 thousand		–	1
Total derivative financial assets and liabilities at fair value through profit or loss				**2,809**	**30,591**
Derivative financial instruments				**2,809**	**30,591**

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(Thousands of euros)

7. Derivative financial instruments (continued)

	31 December 2018				
	Nominal amount		**Weighted average exchange rate**	*Fair value*	
	Purchase	*Sale*		*Assets*	*Liabilities*
Derivative financial assets and liabilities at fair value through profit or loss					
Swaps	RUB 11,997,998 thousand	EUR 185,875 thousand	64.73	–	32,810
	RON 757,800 thousand	EUR 166,289 thousand	4.56	2,091	3,925
	EUR 184,595 thousand	USD 216,924 thousand	1.18	28	5,049
	EUR 15,139 thousand	HUF 4,760,000 thousand	314.42	409	137
	EUR 4,512 thousand	RON 21,000 thousand	4.65	–	190
	EUR 53,833 thousand	RUB 4,116,000 thousand	76.46	561	–
	HUF 3,970,000 thousand	EUR 12,389 thousand	320.45	–	1
	CZK 750,000 thousand	EUR 29,503 thousand	25.42	631	–
	RUB 3,000,000 thousand	USD 52,910 thousand	56.70	–	7,779
Forwards	EUR 34,000 thousand	USD 40,140 thousand	1.18	–	1,052
Total derivative financial assets and liabilities at fair value through profit or loss				**3,720**	**50,943**
Derivative financial instruments				**3,720**	**50,943**

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

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

As at 30 June 2019 and 31 December 2018, the Group has positions in the following types of derivatives:

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

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

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

(Thousands of euros)

8. Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income comprise:

	30 June 2019 (unaudited)	*31 December 2018*
Owned by the Group		
Listed debt securities at fair value through other comprehensive income		
Government bonds of member countries		
Credit rating A+	–	1,149
Credit rating from BBB- to BBB+	12,755	–
Government bonds of non-member countries		
Credit rating from AA- to AA+	16,652	10,574
Credit rating from A- to A+	–	11,472
Credit rating B-	12,836	18,077
Government bonds	**42,243**	**41,272**
Corporate bonds		
Credit rating AAA	34,126	22,294
Credit rating from AA- to AA+	6,217	3,504
Credit rating from A- to A+	59,195	50,556
Credit rating from BBB- to BBB+	19,097	28,308
Credit rating from BB- to BB+	23,550	25,040
Credit rating from B- to B+	35,014	32,679
Corporate bonds	**177,199**	**162,381**
Total listed debt securities at fair value through other comprehensive income	**219,442**	**203,653**
Equity instruments at fair value through other comprehensive income		
No credit rating	1,199	679
Equity instruments	**1,199**	**679**
Total equity instruments at fair value through other comprehensive income	**1,199**	**679**
Securities at fair value through other comprehensive income	**220,641**	**204,332**

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

Allowance for ECL at 1 January 2019	**300**
New purchased or originated assets	31
Assets derecognized or redeemed	(91)
Foreign exchange differences	(4)
Allowance for ECL at 30 June 2019 (unaudited)	**236**

An analysis of changes in the ECL allowances during the six months ended 30 June 2018 is 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 2018: maturing in 2023-2027). The annual coupon rate for these bonds varies from 2.0% to 7.6% (31 December 2018: from 0.4% to 7.6%).

(Thousands of euros)

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

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 2018: maturing in 2020-2028). The annual coupon rate for these bonds varies from 0.0% to 7.8% (31 December 2018: from 0.4% to 7.8%).

Equity instruments are represented by shares issued by a major international company and units of the fund.

9. Securities at amortized cost

Securities at amortized cost comprise:

	30 June 2019 (unaudited)	*31 December 2018*
Owned by the Group		
Listed debt securities at amortized cost		
Government bonds of non-member countries		
Credit rating AAA	5,739	–
Government bonds	**5,739**	**–**
Corporate bonds:		
Credit rating AAA	22,145	22,053
Credit rating AA	4,470	4,455
Credit rating BBB	23,138	14,957
Corporate bonds	**49,753**	**41,465**
Listed debt securities at amortized cost	**55,492**	**41,465**
Pledged under repurchase agreements		
Corporate bonds:		
Credit rating AAA	19,101	–
Corporate bonds	**19,101**	**–**
Total listed debt securities at amortized cost pledged under repurchase agreements	**19,101**	**–**

Government bonds comprise EUR-denominated securities issued and guaranteed by the Ministries of Finance of these countries. The bonds mature in 2040 (31 December 2018: none). The annual coupon rate for these bonds 0.5% (31 December 2018: none).

Corporate bonds comprise investment grade bonds issued by large companies and banks of the member countries of the Bank, as well as international companies and development banks with goals and missions similar to those of the Group. The bonds mature in 2021-2029 (31 December 2018: 2021-2026). The coupon rate for these bonds varies from 0.6% to 2.2% (31 December 2018: 1.8% to 2.1%).

10. Loans to banks

In the six months ended 30 June 2019, the Group continued its lending activities, being guided by the key priorities of the Development Strategy of the IIB. The principal lending activity is to participate in financing of socially important infrastructure projects in these countries and to facilitate the development of small and medium-sized businesses and foreign trade in the member countries. The Group considers national development institutes, export and import banks and agencies, international financial organizations and development banks as its key counterparties.

(Thousands of euros)

10. Loans to banks (continued)

In the six months ended 30 June 2019 and in 2018, the Group provided trade financing loans and long-term loans to borrowers operating in the following countries:

	30 June 2019 (unaudited)	*31 December 2018*
Trade financing loans		
Republic of Belarus	46,979	54,783
Mongolia	12,985	10,849
Trade financing loans	**59,964**	**65,632**
Long-term loans to banks		
Republic of Cuba	50,009	49,960
Mongolia	48,210	38,255
Socialist Republic of Vietnam	5,981	24,670
Long-term loans to banks	**104,200**	**112,885**
Less: allowance for impairment of loans to banks	(1,865)	(1,885)
Loans to banks	**162,299**	**176,632**

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

Trade financing loans	*Stage 1*	*Total*
Allowance for ECL at 1 January 2019	**478**	**478**
New purchased or originated assets	439	**439**
Assets derecognized or redeemed (excluding write-offs)	(591)	**(591)**
Changes to models and inputs used for ECL calculations	31	**31**
Foreign exchange differences	(1)	**(1)**
At 30 June 2019 (unaudited)	**356**	**356**

An analysis of changes in the ECL allowances during the six months ended 30 June 2018 is as follows:

Trade financing loans	*Stage 1*	*Total*
Allowance for ECL at 1 January 2018	**114**	**114**
New purchased or originated assets	586	**586**
Assets derecognized or redeemed (excluding write-offs)	(349)	**(349)**
At 30 June 2018 (unaudited)	**351**	**351**

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

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

(Thousands of euros)

10. Loans to banks (continued)

An analysis of changes in the ECL allowances during the six months ended 30 June 2018 is as follows:

Long-term loans to banks	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2018	**2,633**	–	**15,254**	**17,887**
New purchased or originated assets	593	–	–	**593**
Assets derecognized or redeemed (excluding write-offs)	(789)	–	–	**(789)**
Transfers to Stage 2	(350)	350	–	–
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)**
Foreign exchange differences	–	–	(877)	**(877)**
At 30 June 2018 (unaudited)	**2,087**	–	**14,377**	**16,464**

As at 30 June 2019, there were no overdue loans to banks (31 December 2018: no overdue).

Modified and restructured loans to banks

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

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

As at 30 June 2019, there were no modified nor restructured loans to banks (31 December 2018: no modified nor restructured).

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(Thousands of euros)

10. Loans to banks (continued)

Allowance for impairment of loans to banks

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

	Mongolia	*Socialist Republic of Vietnam*	*Republic of Cuba*	*Other*	*Total*
At 1 January 2019	**673**	**257**	**543**	**412**	**1,885**
Net (reversal)/charge of impairment allowance for ECL during the period	301	(173)	5	(142)	**(9)**
Change in allowance resulting from changes in exchange rates	(9)	(2)	–	–	**(11)**
At 30 June 2019 (unaudited)	**965**	**82**	**548**	**270**	**1,865**

A reconciliation of the allowance for ECL related to the impairment of loans to banks by country for the six months ended 30 June 2018 is as follows:

	Russian Federation	*Mongolia*	*Socialist Republic of Vietnam*	*Republic of Cuba*	*Other*	*Total*
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**

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(Thousands of euros)

10. Loans to banks (continued)

Analysis of collateral for loans to banks

The following table provides an analysis of the portfolio of trade financing loans and long-term loans to banks by type of collateral as at 30 June 2019 and 31 December 2018.

	30 June 2019 (unaudited)		*31 December 2018*	
	Loans to banks, net of allowance for impairment	*Share in the total loans, %*	*Loans to banks, net of allowance for impairment*	*Share in the total loans, %*
State guarantees	49,461	30.5	49,416	28.0
Uncollateralized part of the loans	112,838	69.5	127,216	72.0
Loans to banks	**162,299**	**100.0**	**176,632**	**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 2019, long-term loans and trade financing loans to six banks (31 December 2018: six banks) with a total amount of loans to each of them exceeding 10% of total loans to banks were recorded on the Group's balance sheet. As at 30 June 2019, the total amount of such major loans was EUR 143,502 thousand (31 December 2018: EUR 148,608 thousand) and allowances of EUR 1,696 thousand (31 December 2018: 1,411 thousand) were made for them.

11. Loans to customers

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

	30 June 2019 (unaudited)	*31 December 2018*
Loans to customers at amortized cost		
Romania	119,644	86,846
Russian Federation	106,626	99,979
Republic of Bulgaria	93,511	105,161
Slovak Republic	90,637	89,966
Kingdom of the Netherlands	64,758	35,075
Republic of Ecuador	32,026	31,838
Republic of Panama	27,670	28,747
Mongolia	21,751	27,507
Hungary	20,092	34,454
Socialist Republic of Vietnam	19,923	22,028
USA	1,536	1,580
Total loans to customers at amortized cost	**598,174**	**563,181**
Loans to customers at fair value through other comprehensive income		
Republic of Bulgaria	31,265	30,073
Total loans to customers at fair value through other comprehensive income	**31,265**	**30,073**
Less: allowance for impairment of loans to customers	(16,227)	(17,051)
Loans to customers	**613,212**	**576,203**

(Thousands of euros)

11. Loans to customers (continued)

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

Loans to customers	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2019	**2,029**	**329**	**14,693**	**17,051**
New purchased or originated assets	1,583	2	–	**1,585**
Assets derecognized or redeemed (excluding write-offs)	(2,198)	(41)	–	**(2,239)**
Changes to models and inputs used for ECL calculations	20	–	–	**20**
Foreign exchange differences	–	–	(190)	**(190)**
At 30 June 2019 (unaudited)	**1,434**	**290**	**14,503**	**16,227**

An analysis of changes in the ECL allowances during the six months ended 30 June 2018 is as follows:

Loans to customers	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2018	**5,336**	**3,610**	**15,151**	**24,097**
New purchased or originated assets	1,119	6	–	**1,125**
Assets derecognized or redeemed (excluding write-offs)	(4,014)	–	–	**(4,014)**
Changes to models and inputs used for ECL calculations	–	1,317	–	**1,317**
At 30 June 2018 (unaudited)	**2,441**	**4,933**	**15,151**	**22,525**

The information on overdue loans to customers as at 30 June 2019 and 31 December 2018 is provided below:

	30 June 2019 (unaudited)	*31 December 2018*
Total loans with overdue principal and/or interest	14,503	14,694
Less: allowance for impairment of loans to customers	(14,503)	(14,694)
Overdue loans to customers	–	–

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

Modified and restructured loans to customers

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

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

As at 30 June 2019 there were no modified nor restructured loans to customers (31 December 2018: no modified nor restructured).

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(Thousands of euros)

11. Loans to customers (continued)

Allowance for impairment of loans to customers

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

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

A reconciliation of the allowance for impairment of loans to customers by country for the six months ended 30 June 2018 is as follows:

	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Hungary*	*Mongolia*	*Other*	*Total*
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**

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(Thousands of euros)

11. Loans to customers (continued)

Analysis of collateral for loans to customers

The following table provides an analysis of the customer loan portfolio, net of allowance for impairment, by types of collateral as at 30 June 2019 and 31 December 2018:

	30 June 2019 (unaudited)		*31 December 2018*	
	Loans to customers less impairment allowance	*Share in the total loans, %*	*Loans to customers less impairment allowance*	*Share in the total loans, %*
Pledge of shares	101,098	16.5	113,532	19.7
Pledge of real property (mortgage) and title	90,242	14.7	103,128	17.9
Corporate guarantees	70,004	11.4	47,302	8.2
Pledge of equipment and goods in turnover	67,801	11.1	74,607	12.9
State guarantees	59,566	9.7	60,462	10.5
Pledge of rights of claim	26,094	4.3	24,888	4.3
Pledge of vehicles	14,276	2.3	16,567	2.9
Uncollateralized part of the loans	184,131	30.0	135,717	23.6
Loans to customers	**613,212**	**100.0**	**576,203**	**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 2019, loans to two borrowers (31 December 2018: two borrowers) with the total amount of loans to each of the two borrowers exceeding 10% of total loans to customers were recorded on the Group's balance sheet. As at 30 June 2019, these loans comprised EUR 158,072 thousand (31 December 2018: EUR 159,485 thousand) in total and impairment allowances of EUR 58 thousand (31 December 2018: 86 thousand) were made for them.

Analysis of loans to customers by industry

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

	30 June 2019 (unaudited)	*31 December 2018*
Production and transmission of electricity	191,789	195,953
Leases	117,711	122,638
Communications	109,364	79,484
Real estate	38,220	18,863
Financial services	36,282	29,312
Retail	29,110	29,506
Mining	21,751	21,766
Manufacturing of refined oil products	20,092	30,101
Food and beverage	15,929	23,653
Manufacturing of electrical equipment	14,504	14,694
Production of pharmaceutical products	12,788	10,771
Agriculture	8,900	3,243
Land transport	8,122	8,640
Postal activities	4,877	4,630
	629,439	**593,254**
Less: allowance for impairment of loans to customers	(16,227)	(17,051)
Loans to customers	**613,212**	**576,203**

(Thousands of euros)

12. Other assets and liabilities

Other assets comprise:

	30 June 2019 (unaudited)	*31 December 2018*
Financial assets		
Settlements on bank transactions	3,583	1,970
Accounts receivable on business operations	320	108
Guarantee payments	8	26
Other financial assets	636	316
	4,547	**2,420**
Less allowance for impairment of financial assets	(1,682)	(1,527)
Total financial assets	**2,865**	**893**
Non-financial assets		
Advances issued	1,309	1,585
Assets held for sale – real estate	89	89
Other non-financial assets	823	748
Total non-financial assets	**2,221**	**2,422**
Other assets	**5,086**	**3,315**

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

Financial assets	***Total***
Allowance for ECL at 1 January 2019	**1,527**
New purchased or originated assets	8
Assets derecognized or redeemed (excluding write-offs)	(8)
Change in allowance resulting from changes in exchange rates	155
At 30 June 2019 (unaudited)	**1,682**

An analysis of changes in the ECL allowances during the six months ended 30 June 2018 is as follows:

Financial assets	***Total***
Allowance for ECL at 1 January 2018	**1,735**
New purchased or originated assets	13
Assets derecognized or redeemed (excluding write-offs)	(15)
Change in allowance resulting from changes in exchange rates	(76)
At 30 June 2018 (unaudited)	**1,657**

Other liabilities comprise:

	30 June 2019 (unaudited)	*31 December 2018*
Financial liabilities		
Other accounts payable on bank transactions	828	163
Other accounts payable on business operations	759	1,606
Total financial liabilities	**1,587**	**1,769**
Non-financial liabilities		
Settlements with employees	5,962	4,812
Allowance for ECL on credit-related commitments	2,182	1,752
Other non-financial liabilities	250	487
Total non-financial liabilities	**8,394**	**7,051**
Other liabilities	**9,981**	**8,820**

(Thousands of euros)

13. Allowances for credit losses

The table below shows allowances for ECL on financial instruments recorded in profit or loss for the six months ended 30 June 2019 and six months ended 30 June 2018:

	Note	*Stage 1*	*Stage 2*	*Total*
Securities at fair value through other comprehensive income	8	(60)	–	**(60)**
Loans to banks	10	(9)	–	**(9)**
Loans to customers	11	(596)	(38)	**(634)**
Financial assets	12	(2)	–	**(2)**
Non-financial liabilities (allowance for ECL on credit-related commitments)	12, 18	429	–	**429**
Total expenses from impairment at 30 June 2019 (unaudited)		**(238)**	**(38)**	**(276)**

	Note	*Stage 1*	*Stage 2*	*Total*
Cash and cash equivalents	5	(7)	–	**(7)**
Deposits with banks and other financial institutions	6	(241)	–	**(241)**
Securities at fair value through other comprehensive income	8	(134)	–	**(134)**
Loans to banks	10	(309)	1,836	**1,527**
Loans to customers	11	(2,895)	1,323	**(1,572)**
Financial assets	12	(2)	–	**(2)**
Non-financial liabilities (allowance for ECL on credit-related commitments)	12, 18	368	(1)	**367**
Total (income)/expenses from impairment at 30 June 2018 (unaudited)		**(3,220)**	**3,158**	**(62)**

14. Due to banks and other financial institutions

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

	30 June 2019 (unaudited)	*31 December 2018*
Due to banks up to 1 year		
Term deposits of banks and other financial institutions	55,871	67,872
Repurchase agreements	18,290	–
Overdrafts	3	–
Total due to banks up to 1 year	**74,164**	**67,872**
Due to banks and other financial institutions	**74,164**	**67,872**

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

Concentration of deposits from banks and other financial institutions

As at 30 June 2019, the Group has four counterparties (31 December 2018: four counterparties) accounting for over 10% of the Group's total deposits from banks and other financial institutions in the amount of EUR 74,161 thousand (31 December 2018: EUR 67,872 thousand).

(Thousands of euros)

15. Long-term loans of banks

Long-term loans of banks comprise:

	30 June 2019 (unaudited)	*31 December 2018*
SSD	23,000	22,994
Loans of banks	22,249	34,559
Long-term loans of banks	**45,249**	**57,553**

On 19 March 2018, the Group received the first tranche from the BRICS New Development Bank in the amount of USD 12.5 million (EUR 10,273 thousand) under the loan agreement of USD 50.0 million. On 17 July 2018, the Bank received the second tranche in the amount of USD 12.5 million (EUR 10,674 thousand).

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

16. Debt securities issued

Debt securities issued comprise:

	Interest rate, % p.a.	*Maturity*	*30 June 2019 (unaudited)*	*31 December 2018*
RUB-denominated bonds	0.01-8.75	2024-2027	213,097	230,032
RON-denominated bonds	3.40-4.76	2019-2021	192,725	194,071
EUR-denominated bonds	1.50-3.50	2019-2021	171,817	170,085
HUF-denominated bonds	2.00	2022	76,499	–
CZK-denominated bonds	2.57	2021	59,320	29,266
Debt securities issued			**713,458**	**623,454**

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

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

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

On 15 October 2018, the Group placed bonds of the fourth issue on the Bucharest Stock Exchange structured in two tranches of EUR 80 million and RON 300 million (EUR 64,364 thousand). Both tranches mature in 3 years. EUR-denominated bonds and RON-denominated bonds bear interest rates of 1.5026% p.a. and 3m Robor + 1.40%, respectively.

On 15 October 2018, the Group fully repaid the first issue of bonds placed in Romania in the amount of RON 111 million (EUR 23,801 thousand).

On 30 May 2018, the Group made a secondary placement of RUB-denominated bonds, series 03, in the amount of RUB 3.99 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 for one coupon period before the offer in November 2018. The Group repurchased the full issue from investors under the offer in November 2018.

(Thousands of euros)

16. Debt securities issued (continued)

On 26 April 2018, the Group placed an issue of bonds worth a total of CZK 501.0 million (EUR 19,832 thousand) maturing in three years. On 4 June 2018, the Group made an additional placement of bonds worth a total of CZK 249.7 million (EUR 9,675 thousand). The coupon rate was set at 3m Pribor + 0.55% p.a.

At the issue dates of the non EUR-denominated bonds, the Group entered into cross-currency interest rate swaps for the purpose of managing currency risks (Note 7) and exchanging interest expense from debt securities issued, denominated in RUB, RON, HUF, CZK to the currency required by the Bank (EUR, USD) to finance credit projects in the required currency. The effects of using cross-currency interest rate swaps are disclosed in Notes 20 and 21.

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

17. Equity

Subscribed and paid-in capital

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

As at 30 June 2019, the unpaid portion of the Bank's authorized capital consists of the callable capital (contributions that have not been made yet by the Bank's member countries) in the amount of EUR 794 888 thousand (31 December 2018: EUR 798 538 thousand) and the amount of unallocated equity contributions (quotas that are available to new or existing Member countries) totaling EUR 875,500 thousand (31 December 2018: EUR 875,500 thousand).

The Government of Romania made an additional contribution of EUR 3,650 thousand to the Bank's equity on 28 March 2019.

The Government of the Czech Republic made an additional contribution of EUR 7,000 thousand to the Bank's equity on 20 December 2018.

The Government of Romania made an additional contribution of EUR 4,000 thousand to the Bank's equity on 12 July 2018.

The paid-in capital of the International Investment Bank totaled EUR 329,612 thousand (31 December 2018: EUR 325,962 thousand).

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(Thousands of euros)

17. Equity (continued)

Revaluation reserve for securities at fair value through other comprehensive income and revaluation reserve for property and equipment

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

	Revaluation reserve for securities	*Revaluation reserve for property and equipment*
At 1 January 2018	**2,283**	**13,748**
Net unrealized gains on available-for-sale securities	(4,542)	–
Change in the allowance for ECL on securities at fair value through other comprehensive income	306	–
Reclassification of accumulated gains from disposal of debt securities at fair value through other comprehensive income to the interim condensed consolidated 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**
At 1 January 2019	**(7,366)**	**13,748**
Net change in the fair value of securities at fair value through other comprehensive income	11,849	–
Change in the allowance for ECL on securities at fair value through other comprehensive income	(64)	–
Reclassification of accumulated gains from disposal of debt securities at fair value through other comprehensive income to the interim consolidated income statement	(1,715)	–
At 30 June 2019 (unaudited)	**2,704**	**13,748**

Revaluation reserve for securities

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

Revaluation reserve for property and equipment

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

18. Commitments and contingencies

Legal

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

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

(Thousands of euros)

18. Commitments and contingencies (continued)

Insurance

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

Taxation

The IIB is an international institution operating on the basis of the Intergovernmental Agreement on the Establishment of the International Investment Bank (the "Agreement") and the Statute that constitutes an integral part of the Agreement. Pursuant to the Agreement, the Bank is exempt from any national or local direct taxes or duties effective in the territories of its member states. For taxation purposes, its subsidiaries are subject to the provisions of the effective Russian tax, currency and customs legislation.

Credit-related commitments

At any time the Group may have outstanding commitments to extend loans. These commitments take the form of approved loan agreements. As at 30 June 2019, credit-related commitments of the Group comprised credit-related commitments such as undrawn loan facilities, guarantees and reimbursement obligations, including under the Trade Financing Program.

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

Credit-related commitments are presented in the table below as at 30 June 2019 and 31 December 2018.

	30 June 2019 (unaudited)	*31 December 2018*
Undrawn loan facilities	158,565	108,601
Guarantees issued	76,481	63,987
Reimbursement obligations	16,570	17,021
	251,616	**189,609**
Less: allowance for impairment of credit-related commitments	(2,182)	(1,752)
Credit-related commitments	**249,434**	**187,857**

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

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

An analysis of changes in the ECL allowances during the six months ended 30 June 2018 is as follows:

Guarantees issued	*Stage 1*	*Total*
Allowance for ECL at 1 January 2018	**54**	**54**
New purchased or originated credit-related commitments	849	**849**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(249)	**(249)**
At 30 June 2018 (unaudited)	**654**	**654**

(Thousands of euros)

18. Commitments and contingencies (continued)

Credit-related commitments (continued)

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

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

An analysis of changes in the ECL allowances during the six months ended 30 June 2018 is as follows:

Undrawn loan facilities	*Stage 1*	*Stage 2*	*Total*
Allowance for ECL at 1 January 2018	**340**	**68**	**408**
New purchased or originated credit-related commitments	253	–	**253**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(328)	(1)	**(329)**
At 30 June 2018 (unaudited)	**265**	**67**	**332**

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

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

An analysis of changes in the ECL allowances during the six months ended 30 June 2018 is as follows:

Reimbursement obligations	*Stage 1*	*Total*
Allowance for ECL at 1 January 2018	**402**	**402**
New purchased or originated credit-related commitments	272	**272**
Credit-related commitments derecognized or redeemed (excluding write-offs)	(429)	**(429)**
At 30 June 2018 (unaudited)	**245**	**245**

19. Leases

Group as lessor

The Group provides its investment property for operating leases. As at 30 June 2019, the Group's non-cancelable operating lease rentals amount to EUR 5,097 thousand (31 December 2018: EUR 3,326 thousand) and will be settled within 1 month – 4 years (31 December 2018: 1 month – 4 years).

(Thousands of euros)

20. Interest income and interest expenses

Net interest income comprises:

	30 June 2019 (unaudited)	*30 June 2018 (unaudited)*
Interest income		
Interest income calculated using the EIR method		
Loans to customers	15,532	12,947
Loans to banks	4,191	4,644
Securities at fair value through other comprehensive income	3,418	2,782
Securities at amortized cost	411	457
Deposits with banks and other financial institutions, including cash and cash equivalents	167	776
Other	2	3
Other interest income		
Cross-currency interest rate swaps covering long-term currency risks	9,267	7,943
Total interest income	**32,988**	**29,552**
Interest expenses		
Interest expenses calculated using the EIR method		
Debt securities issued	(16,628)	(15,492)
Long-term loans of banks	(839)	(1,197)
Current customer accounts	(107)	(90)
Due to banks and other financial institutions	(15)	(682)
Other	(56)	(15)
Other interest expenses		
Cross-currency interest rate swaps covering long-term currency risks	(4,169)	(908)
Total interest expenses	**(21,814)**	**(18,384)**
Net interest income	**11,174**	**11,168**

21. Net losses from operations with foreign currencies and derivatives

Net losses from operations with foreign currencies and derivatives comprise:

	30 June 2019 (unaudited)	*30 June 2018 (unaudited)*
Derivative financial instruments and operations with foreign currencies		
Net (losses)/gains from operations with foreign currencies and derivatives	(5,957)	13,560
Net gains/(losses) from revaluation of derivative financial instruments	14,342	(28,583)
Total derivative financial instruments and operations with foreign currencies	**8,385**	**(15,023)**
Fair value hedge operations		
Net gains from revaluation of fair value hedge operations	–	624
Net losses from revaluation of the hedged object	–	(834)
Total fair value hedge operations	–	**(210)**
Translation differences		
Net (losses)/gains from revaluation of assets and liabilities in foreign currencies	(10,593)	13,373
Net losses from operations in foreign currencies and with derivatives	**(2,208)**	**(1,860)**

(Thousands of euros)

22. General and administrative expenses

General and administrative expenses comprise:

	30 June 2019 (unaudited)	*30 June 2018 (unaudited)*
Employee compensations and employment taxes	6,026	6,338
Depreciation of property, equipment and intangible assets	999	1,031
IT expenses, inventory and occupancy expenses	861	897
Expenses related to business travel, representative and accommodation expenses	339	275
Professional services	102	148
Other	218	214
General and administrative expenses	**8,545**	**8,903**

23. Risk management

Risk management framework

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

The Group's risk management activities are intended to:

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

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

Risk management system

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

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

- Risk-taking (1st line of defense): the Group's divisions directly preparing and conducting transactions are involved in the identification, assessment, and monitoring of risks and comply with internal regulations on risk management, as well as give due consideration to the risk level in the preparation of transactions.
- Risk management (2nd line of defense): the division responsible for risk management develops risk management tools and methodology, assesses and monitors the risk level, prepares reports on risks, carries out risk aggregation, and calculates the amount of total capital requirements.
- Internal audit (3rd line of defense): independent quality assessment for existing risk management processes, identification of violations, and proposals for the improvement of the risk management system.

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

(Thousands of euros)

23. Risk management (continued)

Risk management system (continued)

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

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

Credit risk

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

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

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

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 2019 and 31 December 2018:

30 June 2019 (unaudited)	*Loan amount*	*Allowance for impairment*	*Loan amount, including allowance for impairment*	*Impairment to loan amount ratio, %*
Trade financing loans				
Not past due (Stage 1)	59,964	(356)	59,608	0.6
Total trade financing loans	**59,964**	**(356)**	**59,608**	**0.6**
Long-term loans to banks				
Not past due (Stage 1)	104,200	(1,509)	102,691	1.4
Total long-term loans to banks	**104,200**	**(1,509)**	**102,691**	**1.4**
Loans to customers at amortized cost				
Not past due (Stage 1, 2)	583,671	(1,724)	581,947	0.3
Loans more than 90 days past due (Stage 3)	14,503	(14,503)	–	100.0
Total loans to customers at amortized cost	**598,174**	**(16,227)**	**581,947**	**2.7**
Loans to customers at fair value through other comprehensive income				
Not past due (Stage 1)	31,265	–	31,265	–
Total loans to customers at fair value through other comprehensive income	**31,265**	**–**	**31,265**	**–**
Total loans	**793,603**	**(18,092)**	**775,511**	**2.3**

(Thousands of euros)

23. Risk management (continued)

Credit risk (continued)

31 December 2018	*Loan amount*	*Allowance for impairment*	*Loan amount, including allowance for impairment*	*Impairment to loan amount ratio, %*
Trade financing loans				
Not past due (Stage 1)	65,632	(478)	65,154	0.7
Total trade financing loans	**65,632**	**(478)**	**65,154**	**0.7**
Long-term loans to banks				
Not past due (Stage 1)	112,885	(1,407)	111,478	1.2
Total long-term loans to banks	**112,885**	**(1,407)**	**111,478**	**1.2**
Loans to customers at amortized cost				
Not past due (Stage 1, 2)	548,487	(2,357)	546,130	0.4
Loans more than 90 days past due (Stage 3)	14,694	(14,694)	–	100.0
Total loans to customers at amortized cost	**563,181**	**(17,051)**	**546,130**	**3.03**
Loans to customers at fair value through other comprehensive income				
Not past due (Stage 1)	30,073	–	30,073	–
Total loans to customers at fair value through other comprehensive income	**30,073**	**–**	**30,073**	**–**
Total loans	**771,771**	**(18,936)**	**752,835**	**2.5**

Liquidity risk

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

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

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

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

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

(Thousands of euros)

23. Risk management (continued)

Liquidity risk (continued)

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

The liquidity buffer is formed primarily due to liquidity reserves, namely securities recognized in the Group's balance sheet and included in the Lombard lists of the European Central Bank and the Bank of Russia, and nostro accounts with banks and other financial institutions. The Group calculates its liquidity reserves as at the reporting date and for the next twelve monthly reporting dates (forecast). The liquidity buffer may be used to close the negative net position. As at 30 June 2019, the liquidity buffer amounts to EUR 183.6 million (31 December 2018: EUR 135.1 million).

Credit-related commitments of the Group are stated in accordance with contractual maturities in the table presented below. Where there is no contractual schedule of credit-related commitments, these obligations are included into the earliest date on which the client can demand their execution.

	30 June 2019 (unaudited)	*31 December 2018*
Less than 1 month	35,531	17,303
1 to 3 months	15,148	34,126
3 months to 1 year	89,851	40,539
1 to 5 years	73,116	59,984
Over 5 years	35,788	35,905
Credit-related commitments	**249,434**	**187,857**

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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 securities at fair value through other comprehensive income and equity instruments were included in the "Less than 1 month" category as they are highly liquid securities, shares and depositary receipts which the Group may sell in the short term on the arm-length basis. Securities at fair value through other comprehensive income pledged under repurchase agreements are presented on the basis of periods from the reporting date to the expiry date of the respective contractual obligations of the Group.

	30 June 2019 (unaudited)							*31 December 2018*						
	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	71,909	142	–	–	–	–	**72,051**	49,214	26	–	–	–	–	**49,240**
Deposits with banks and other financial institutions	–	–	9,916	19,440	–	–	**29,356**	–	–	–	47,396	–	–	**47,396**
Derivative financial assets	70	213	507	2,019	–	–	**2,809**	–	28	65	3,627	–	–	**3,720**
Securities at fair value through other comprehensive income	220,641	–	–	–	–	–	**220,641**	204,332	–	–	–	–	–	**204,332**
Securities at amortized cost	–	85	286	4,434	69,788	–	**74,593**	–	84	86	4,420	36,875	–	**41,465**
Loans to banks	9,253	22,872	47,399	77,415	5,360	–	**162,299**	465	34,531	42,227	91,380	8,029	–	**176,632**
Loans to customers	11,114	3,560	40,129	253,168	305,241	–	**613,212**	6,751	11,986	42,185	215,571	299,710	–	**576,203**
Other financial assets	2,280	–	164	421	–	–	**2,865**	581	310	2	–	–	–	**893**
Total assets	**315,267**	**26,872**	**98,401**	**356,897**	**380,389**	**–**	**1,177,826**	**261,343**	**46,965**	**84,565**	**362,394**	**344,614**	**–**	**1,099,881**
Liabilities														
Due to banks and other financial institutions	(22,004)	(33,870)	(18,290)	–	–	–	**(74,164)**	(35,001)	(32,871)	–	–	–	–	**(67,872)**
Current customer accounts	(10,023)	–	–	–	–	–	**(10,023)**	(9,716)	–	–	–	–	–	**(9,716)**
Derivative financial liabilities	(562)	(3,507)	(13,849)	(12,673)	–	–	**(30,591)**	(1,052)	(1,380)	(14,954)	(33,557)	–	–	**(50,943)**
Long-term loans of banks	–	–	(6,427)	(4,938)	(33,884)	–	**(45,249)**	–	(279)	(212)	(18,391)	(38,671)	–	**(57,553)**
Debt securities issued	(903)	(69,596)	(171,781)	(471,178)	–	–	**(713,458)**	(732)	(3,406)	(134,648)	(484,668)	–	–	**(623,454)**
Other financial liabilities	(959)	–	(285)	(54)	(289)	–	**(1,587)**	(116)	(849)	(156)	(119)	(529)	–	**(1,769)**
Total liabilities	**(34,451)**	**(106,973)**	**(210,632)**	**(488,843)**	**(34,173)**	**–**	**(875,072)**	**(46,617)**	**(38,785)**	**(149,970)**	**(536,735)**	**(39,200)**	**–**	**(811,307)**
Net position	**280,816**	**(80,101)**	**(112,231)**	**(131,946)**	**346,216**	**–**	**302,754**	**214,726**	**8,180**	**(65,405)**	**(174,341)**	**305,414**	**–**	**288,574**
Accumulated net position	**280,816**	**200,715**	**88,484**	**(43,462)**	**302,754**	**302,754**		**214,726**	**222,906**	**157,501**	**(16,840)**	**288,574**	**288,574**	

(Thousands of euros)

23. Risk management (continued)

Market risk

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

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

Currency risk

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

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

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

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

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

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

As at 30 June 2019 and 31 December 2018, final data on the value at risk (VaR) assessment in relation to currency and price risks assumed by the Group are represented as follows:

	30 June 2019 (unaudited)	*31 December 2018*
Fixed income securities price risk	1,790	1,341
Currency risk	64	75
Equity securities price risk	–	–

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

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

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

(Thousands of euros)

23. Risk management (continued)

Market risk (continued)

The Group has assets and liabilities denominated in several foreign currencies. The financial position and the cash flows are exposed to the effects of fluctuations in foreign currency exchange rates. Non-monetary financial instruments and financial instruments denominated in functional currency are not exposed to currency risk. The Group's exposure to currency risk as at 30 June 2019 and 31 December 2018 is presented below:

	30 June 2019 (unaudited)					*31 December 2018*				
	EUR	*USD*	*RUB*	*Other currencies*	*Total*	*EUR*	*USD*	*RUB*	*Other currencies*	*Total*
Non-derivative financial assets										
Cash and cash equivalents	63,850	2,221	3,021	2,959	**72,051**	41,332	4,912	927	2,069	**49,240**
Deposits with banks and other financial institutions	29,356	–	–	–	**29,356**	47,396	–	–	–	**47,396**
Securities at fair value through other comprehensive income	108,331	102,921	9,389	–	**220,641**	99,347	97,401	7,584	–	**204,332**
Securities at amortized cost	47,978	26,615	–	–	**74,593**	14,957	26,508	–	–	**41,465**
Long-term loans to banks	126,167	36,132	–	–	**162,299**	133,242	43,390	–	–	**176,632**
Loans to customers	361,136	119,164	89,311	43,601	**613,212**	323,348	123,807	80,551	48,497	**576,203**
Other financial assets	2,242	307	315	1	**2,865**	445	377	71	–	**893**
Total non-derivative financial assets	**739,060**	**287,360**	**102,036**	**46,561**	**1,175,017**	**660,067**	**296,395**	**89,133**	**50,566**	**1,096,161**
Liabilities										
Due to banks and other financial institutions	(74,161)	(3)	–	–	**(74,164)**	(67,872)	–	–	–	**(67,872)**
Current customer accounts	(9,910)	(113)	–	–	**(10,023)**	(9,602)	(114)	–	–	**(9,716)**
Long-term loans of banks	(23,000)	(22,249)	–	–	**(45,249)**	(22,994)	(22,113)	–	(12,446)	**(57,553)**
Debt securities issued	(171,817)	–	(213,096)	(328,545)	**(713,458)**	(170,085)	–	(230,032)	(223,337)	**(623,454)**
Other financial liabilities	(1,126)	(86)	(326)	(49)	**(1,587)**	(652)	(227)	(870)	(20)	**(1,769)**
Total non-derivative financial liabilities	**(280,014)**	**(22,451)**	**(213,422)**	**(328,594)**	**(844,481)**	**(271,205)**	**(22,454)**	**(230,902)**	**(235,803)**	**(760,364)**
Net balance sheet position (excluding derivative financial instruments)	**459,046**	**264,909**	**(111,386)**	**(282,033)**	**330,536**	**388,862**	**273,941**	**(141,769)**	**(185,237)**	**335,797**
Derivative financial instruments										
Claims	221,733	–	171,799	312,080	**705,612**	258,078	–	192,297	206,977	**657,352**
Liabilities	(421,029)	(221,237)	(61,407)	(29,721)	**(733,394)**	(394,056)	(237,679)	(53,272)	(19,568)	**(704,575)**
Net balance sheet position, including derivative financial instruments	**259,750**	**43,672**	**(994)**	**326**	**302,754**	**252,884**	**36,262**	**(2,744)**	**2,172**	**288,574**

(Thousands of euros)

24. Fair value measurements

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

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

Fair value hierarchy

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

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

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

	Level 1 30 June 2019 (unaudited)	*Level 2 30 June 2019 (unaudited)*	*Level 3 30 June 2019 (unaudited)*	*Total 30 June 2019 (unaudited)*
Assets measured at fair value				
Derivative financial assets	–	2,809	–	**2,809**
Government bonds of member countries	42,243	–	–	**42,243**
Corporate bonds	128,545	48,654	–	**177,199**
Quoted equity instruments	–	5	–	**5**
Loans to customers at fair value through other comprehensive income	31,265	–	–	**31,265**
Investment property	–	–	25,057	**25,057**
Property and equipment – buildings	–	–	66,211	**66,211**
Liabilities measured at fair value				
Derivative financial liabilities	–	30,591	–	**30,591**
Assets for which fair values are disclosed				
Cash and cash equivalents	332	71,719	–	**72,051**
Deposits with banks and other financial institutions	–	–	29,356	**29,356**
Securities at amortized cost	–	75,150	–	**75,150**
Loans to banks at amortized cost	–	–	163,000	**163,000**
Loans to customers	30,024	–	553,071	**583,095**
Liabilities for which fair values are disclosed				
Due to banks and other financial institutions	–	–	74,164	**74,164**
Current customer accounts	–	–	10,023	**10,023**
Long-term loans of banks	–	–	45,249	**45,249**
Debt securities issued	–	719,678	–	**719,678**

(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 2018:

	Level 1 31 December 2018	*Level 2 31 December 2018*	*Level 3 31 December 2018*	*Total 31 December 2018*
Assets measured at fair value				
Derivative financial assets	–	3,720	–	**3,720**
Government bonds of member countries	41,272	–	–	**41,272**
Corporate bonds	115,960	46,421	–	**162,381**
Quoted equity instruments	–	5	–	**5**
Loans to customers at fair value through other comprehensive income	30,073	–	–	**30,073**
Investment property	–	–	20,788	**20,788**
Property and equipment – buildings	–	–	66,569	**66,569**
Liabilities measured at fair value				
Derivative financial liabilities	–	50,943	–	**50,943**
Assets for which fair values are disclosed				
Cash and cash equivalents	276	48,964	–	**49,240**
Deposits with banks and other financial institutions	–	–	47,396	**47,396**
Securities at amortized cost	–	37,347	–	**37,347**
Loans to banks at amortized cost	–	–	177,186	**177,186**
Loans to customers	–	–	564,178	**564,178**
Liabilities for which fair values are disclosed				
Due to banks and other financial institutions	–	–	67,872	**67,872**
Current customer accounts	–	–	9,716	**9,716**
Long-term loans of banks	–	–	57,553	**57,553**
Debt securities issued	–	627,394	–	**627,394**

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

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

	Carrying amount 30 June 2019 (unaudited)	*Fair value 30 June 2019 (unaudited)*	*Unrecognized gain/(loss) 30 June 2019 (unaudited)*	*Carrying amount 31 December 2018*	*Fair value 31 December 2018*	*Unrecognized gain/(loss) 31 December 2018*
Financial assets						
Cash and cash equivalents	72,051	72,051	–	49,240	49,240	–
Deposits with banks and other financial institutions	29,356	29,356	–	47,396	47,396	–
Securities at amortized cost	74,593	75,150	557	41,465	37,347	(4,118)
Loans to banks	162,299	163,000	701	176,632	177,186	554
Loans to customers at amortized cost	581,947	583,095	1,148	546,130	564,178	18,048
Financial liabilities						
Due to banks and other financial institutions	74,164	74,164	–	67,872	67,872	–
Current customer accounts	10,023	10,023	–	9,716	9,716	–
Long-term loans of banks	45,249	45,249	–	57,553	57,553	–
Debt securities issued	713,458	719,678	(6,220)	623,454	627,394	(3,940)
Total unrecognized change in unrealized fair value			**(3,814)**			**10,544**

(Thousands of euros)

24. Fair value measurements (continued)

Fair value of financial assets and liabilities not recorded at fair value (continued)

Transfers between the levels of the fair value hierarchy are deemed to have made as at the end of the reporting period. There were no transfers of financial instruments between Level 1 and Level 2 in the six months ended 30 June 2019 and 2018.

Changes in Level 3 assets and liabilities at fair value

The following table shows a reconciliation of the opening and closing amounts of Level 3 assets and liabilities that are recorded at fair value:

	At 1 January 2019	*Gains/(losses) recorded in profit or loss*	*Gains/(losses) recorded in comprehensive income*	*Additions*	*Transfer to property and equipment*	*At 30 June 2019 (unaudited)*
Assets						
Property and equipment – buildings	66,569	(564)	–	206	–	66,211
Investment property	20,788	(891)	–	5,160	–	25,057
Total	**87,357**	**(1,455)**	**–**	**5,366**	**–**	**91,268**

	At 1 January 2018	*Gains/(losses) recorded in profit or loss*	*Gains/(losses) recorded in comprehensive income*	*Additions/ (disposals)*	*Transfer to property and equipment*	*At 31 December 2018*
Assets						
Property and equipment – buildings	67,572	(1,124)	–	121	–	66,569
Investment property	21,853	–	–	(1,065)	–	20,788
Total	**89,425**	**(1,124)**	**–**	**(944)**	**–**	**87,357**

25. Segment information

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

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

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(Thousands of euros)

25. Segment information (continued)

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

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

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(Thousands of euros)

25. Segment information (continued)

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

30 June 2018 (unaudited)	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	17,592	11,943	17	**29,552**
Fee and commission income	870	–	–	**870**
Net gains from operations with securities at fair value through profit or loss	–	92	–	**92**
Net gains from operations with securities at fair value through other comprehensive income	–	2,238	–	**2,238**
Dividend income	–	6	–	**6**
Income from lease of investment property	–	–	2,032	**2,032**
Reversal of allowance for impairment of other assets	(398)	382	78	**62**
Other segment income	232	–	300	**532**
Total income	**18,296**	**14,661**	**2,427**	**35,384**
Interest expenses	(10,456)	(7,928)	–	**(18,384)**
Fee and commission expense	(31)	(82)	(2)	**(115)**
Net losses from dealing in foreign currencies and operations with derivatives	–	(1,844)	(16)	**(1,860)**
Cost of inventories sold	–	–	(48)	**(48)**
Other segment expenses	–	–	(987)	**(987)**
Segment results	**7,809**	**4,807**	**1,374**	**13,990**
Other unallocated expenses				**(8,903)**
Profit for the period				**5,087**
Development portfolio	711,276	100,379	–	**811,655**
Other segment assets	–	227,103	94,399	**321,502**
Total segment assets	**711,276**	**327,482**	**94,399**	**1,133,157**
Total segment liabilities	**394,441**	**365,562**	**5,552**	**765,555**
Other segment information				
Capital expenditures	–	–	683	**683**

During the six months of 2019, the Group's revenue from lease operations with one external counterparty (30 June 2018: two external counterparties) exceeded 20% of the Group's total revenue (six months ended 30 June 2019: EUR 891 thousand; six months ended 30 June 2018: EUR 1,408 thousand).

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(Thousands of euros)

25. Segment information (continued)

Geographical information

Allocation of the Group's revenue from transactions with external customers and non-current assets based on the location of these customers and assets for the six months ended 30 June 2019 and 30 June 2018 is presented in the table below:

	30 June 2019 (unaudited)				*30 June 2018 (unaudited)*			
	Russia	*Other member countries*	*Other countries*	*Total*	*Russia*	*Other member countries*	*Other countries*	*Total*
Interest income calculated using the EIR method	5,204	12,512	6,005	**23,721**	4,583	12,326	4,700	**21,609**
Other interest income	2,065	–	7,202	**9,267**	3,756	161	4,026	**7,943**
Income from lease of investment property	1,514	68	–	**1,582**	1,947	85	–	**2,032**

Non-current assets include investment property.

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(Thousands of euros)

25. Segment information (continued)

Geographical information (continued)

Information on risk concentration by geographical region is based on the geographical location of the Group's counterparties. The geographical concentration of the Group's assets and liabilities as at 30 June 2019 and 31 December 2018 is presented below:

	30 June 2019 (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	5,078	710	652	–	2,201	–	–	65	–	63,345	**72,051**
Deposits with banks and other financial institutions	9,916	–	–	–	–	–	–	–	–	19,440	**29,356**
Derivative financial assets	50	–	–	–	–	–	–	–	–	2,759	**2,809**
Securities at fair value through other comprehensive income	–	13,548	22,757	–	–	–	–	35,014	–	149,322	**220,641**
Securities at amortized cost	8,046	–	–	–	–	–	–	–	–	66,547	**74,593**
Long-term loans to banks	–	–	–	–	–	60,228	5,900	–	49,461	46,710	**162,299**
Loans to customers	106,560	124,287	104,476	90,303	20,092	21,748	19,907	–	–	125,839	**613,212**
Other financial assets	793	1,505	216	35	–	39	–	–	–	277	**2,865**
Assets	**130,443**	**140,050**	**128,101**	**90,338**	**22,293**	**82,015**	**25,807**	**35,079**	**49,461**	**474,239**	**1,177,826**
Liabilities											
Due to banks and other financial institutions	3	55,871	–	–	–	–	–	–	–	18,290	**74,164**
Derivative financial liabilities	10,290	–	–	–	–	–	–	–	–	20,301	**30,591**
Long-term loans of banks	–	–	–	–	–	–	–	–	–	45,249	**45,249**
Long-term securities issued	213,097	–	333,830	30,712	76,499	–	–	59,320	–	–	**713,458**
Other financial liabilities	759	707	–	–	2	–	–	–	–	119	**1,587**
Liabilities	**224,149**	**56,578**	**333,830**	**30,712**	**76,501**	**–**	**–**	**59,320**	**–**	**83,959**	**865,049**

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(Thousands of euros)

25. Segment information (continued)

Geographical information (continued)

	31 December 2018										
	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	1,098	734	1,108	3,073	808	–	–	4	–	42,415	**49,240**
Deposits with banks and other financial institutions	18,776	–	–	–	–	–	–	–	–	28,620	**47,396**
Derivative financial assets	65	–	–	–	–	–	–	–	–	3,655	**3,720**
Securities at fair value through other comprehensive income	12,429	15,037	10,003	1,149	–	–	–	42,711	–	123,003	**204,332**
Securities at amortized cost	–	–	–	–	–	–	–	–	–	41,465	**41,465**
Long-term loans to banks	–	–	–	–	–	48,431	24,412	–	49,416	54,373	**176,632**
Loans to customers	99,908	134,543	71,916	89,601	34,454	26,805	21,935	–	–	97,041	**576,203**
Other financial assets	320	–	191	–	–	43	–	–	–	339	**893**
Assets	**132,596**	**150,314**	**83,218**	**93,823**	**35,262**	**75,279**	**46,347**	**42,715**	**49,416**	**390,911**	**1,099,881**
Liabilities											
Due to banks and other financial institutions	–	47,871	–	–	–	–	–	–	–	20,001	**67,872**
Derivative financial liabilities	20,796	–	–	–	–	–	–	–	–	30,147	**50,943**
Long-term loans of banks	–	–	–	–	12,446	–	–	–	–	45,107	**57,553**
Long-term securities issued	230,032	–	333,977	30,179	–	–	–	29,266	–	–	**623,454**
Other financial liabilities	1,606	–	–	–	–	–	–	–	–	163	**1,769**
Liabilities	**252,434**	**47,871**	**333,977**	**30,179**	**12,446**	**–**	**–**	**29,266**	**–**	**95,418**	**801,591**

Other countries include non-member countries.

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(Thousands of euros)

26. Related party disclosures

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

In the ordinary course of business, the Group mainly carries out transactions with entities from the IIB member countries (Notes 8-11). In the ordinary course of business, the Group also engages into contractual relationships with state-owned organizations.

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

Volumes of related party transactions, outstanding balances at 30 June 2019 and 31 December 2018, and related expenses and income for the six months ended 30 June 2019 and six months ended 30 June 2018 are as follows:

	Related party	*30 June 2019 (unaudited)* *Carrying amount*	*31 December 2018* *Carrying amount*
Interim consolidated statement of financial position			
Current customer accounts	Key management personnel	1,487	1,577
Other assets	Key management personnel	76	21
Other liabilities	Key management personnel	849	769

	Related party	*30 June 2019 (unaudited)* *Income/(expense)*	*30 June 2018 (unaudited)* *Income/(expense)*
Interim consolidated income statement			
Interest expenses on current customer accounts	Key management personnel	(17)	(17)
Net interest expense after allowance for loan impairment		**(17)**	**(17)**
Expenses from operating activities		**(17)**	**(17)**
Employee benefits	Key management personnel	(645)	(836)
Compensation for travel expenses and medical insurance	Key management personnel	(67)	(36)
Operating expenses		**(712)**	**(872)**
Net loss for the period		**(729)**	**(889)**

27. Capital adequacy

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

The Basel Committee on Banking Supervision recommends maintaining the ratio of capital to risk-weighted assets ("capital adequacy ratio") above the prescribed minimum level. As at 30 June 2019, this minimum level was 8% (31 December 2018: 8%).

Besides, taking into account the Bank's status as a multilateral development institution and the structure of the Bank's member countries, the IIB's Board of Governors set the capital adequacy ratio at the level of not less than 25% as at 30 June 2019 (31 December 2018: 25%).

(Thousands of euros)

27. Capital adequacy (continued)

The following table shows the composition of the Group's capital position calculated in accordance with the Basel Accord (Basel II) as at 30 June 2019 and 31 December 2018.

	30 June 2019 (unaudited)	*31 December 2018*
Capital		
Tier 1 capital	371,879	368,749
Tier 2 capital	16,452	6,381
Total regulatory capital	**388,331**	**375,130**
Risk-weighted assets		
Credit risk	882,927	863,716
Market risk	182,125	188,040
Operational risk	41,838	41,472
Total risk-weighted assets	**1,106,890**	**1,093,228**
Total capital expressed as a percentage of risk-weighted assets, % ("capital adequacy ratio")	35.08%	34.39%
Total tier 1 capital expressed as a percentage of risk-weighted assets, % ("tier 1 capital adequacy ratio")	33.60%	33.73%

(End).