The International Investment Bank

EUR 30,000,000 Bonds Due 2019

Bond Issue No. 1

This offering circular (the **Offering Circular**) constitutes neither a prospectus or base prospectus for the purposes of Section 121 of Act No. 566/2001 Coll. on Securities and Investment Services, as amended (the **Securities Act**) or Directive 2003/71/EC (the **Prospectus Directive**). Accordingly, this Offering Circular does not purport to meet the format and the disclosure requirements of Prospectus Directive and Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive and it has not been and will not be submitted for approval to any competent authority within the meaning of the Prospectus Directive.

The EUR 30,000,000 Bonds due 21 October 2019 (the **Bonds**) are issued as part of the issue under which bonds with total nominal value of up to EUR 50,000,000 (the **Maximum Principal Amount**). The interest shall be paid in arrear annually and both the interest and the principal shall be paid pursuant to the relevant provisions of the "*Terms and Conditions of the Bonds*" section of this Offering Circular.

The Bonds shall be issued in book-entry form (in Slovak: *zaknihované*) as bearer securities (in Slovak: *cenné papiere na doručiteľa*) and shall be governed by the law of the Slovak Republic. In accordance with the provisions of the Securities Act and the provisions of Act No. 530/1990 Coll. on Bonds, as amended (the **Act on Bonds**), the Bonds shall be registered with the Central Securities Depository of the Slovak Republic (in Slovak: *Centrálny depozitár cenných papierov SR, a.s.*; the **Central Depository**). The Bonds may also be made available to be held through International Central Securities Depositories (the **ICSDs**) such as Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream**), provided that a link between the respective ICSD and the Central Depository is available and utilised for such purpose. The Issuer makes no representation and provides no warranties as to the availability and utilisation of any such link and disclaims any responsibility to ensure that any such link is available and utilised. For further information please see "*Settlement*" section of this Offering Circular.

An application shall be made for the Bonds to be admitted to trading on the Regulated Free Market (in Slovak: *regulovaný voľný trh*) of the Bratislava Stock Exchange (in Slovak: *Burza cenných papierov v Bratislave, a.s.*; the **Bratislava Stock Exchange**) and at the discretion of the Issuer, an application may also be made for the Bonds to be admitted to trading on any other regulated market in the European Union.

The Issuer has been rated A3 with stable outlook by Moody's Deutschland GmbH (**Moody's**) and BBB- with a negative outlook by Fitch Ratings CIS Ltd (**Fitch**). Moody's and Fitch are established in the European Union and registered under the Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**) and are included in the list of registered credit rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation. Bonds issued under this Offering Circular are not expected to be rated. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

LEAD MANAGER

Tatra banka, a.s.

Offering Circular dated 15 October 2014

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IMPORTANT NOTICES

This Offering Circular contains information provided by the International Investment Bank (the **Issuer** or **IIB**) in connection with the issue of the Bonds. The Issuer accepts responsibility for the information contained in this Offering Circular.

Pursuant to a mandate letter dated 19 August 2014 (the **Mandate Letter**), the Issuer has appointed Tatra banka, a.s., (the **Lead Manager**) as the manager for the issuance of the Bonds subject to terms further agreed in the Subscription Agreement to be dated before the issue date (the **Subscription Agreement**).

The Issuer confirms that this Offering Circular is true and accurate in all material respects and is not misleading in any material respect, that any opinions, predictions or intentions expressed herein are honestly held or made and are not misleading in any material respect; that to the best of the Issuer's knowledge and belief this Offering Circular does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the issue, offering and sale of the Bonds) not misleading in any material respect; and that all reasonable enquiries have been made to verify the foregoing.

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

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

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

Only persons that are registered as the owners of the Bonds in the accounts with the Central Depository or with a member of the Central Depository or that are entered in the register of a custodian that holds the Bonds in a holding (nominee) account with the Central Depository will be recognised as owners of the Bonds. The owners of Bonds held in a holding (nominee) account with the Central Depository will be able to exercise all of their rights against the Issuer through the respective custodian (accountholder) that has such holding (nominee) account with the Central Depository.

FOR A DESCRIPTION OF CERTAIN RESTRICTIONS REGARDING THE DISTRIBUTION OF THE OFFERING CIRCULAR AND THE OFFER OR SALE OF BONDS, SEE THE SECTION ENTITLED "SUBSCRIPTION AND SALE".

IN PARTICULAR, THE BONDS HAVE NOT BEEN AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "US SECURITIES ACT"), AND THE BONDS MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S UNDER THE US SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM OR IN A TRANSACTION NOT SUBJECT TO THE REGISTRATION REQUIREMENTS OF THE US SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

Presentation of financial and other information

The unaudited reviewed interim condensed consolidated financial statements of the Issuer for the six month period ended 30 June 2014 and the audited consolidated financial statements of the Issuer for the years ended 31 December 2012 and 2013 (the **Financial Statements**), are attached to this Offering Circular.

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

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

Unless otherwise stated, all annual information is based on calendar years. Statistical data appearing in this Offering Circular has, unless otherwise stated, been principally obtained from the Eurostat, European Commission, International Monetary Fund, World Bank, Standard and Poor's, Moody's and Fitch Group. Similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Certain statistical information relating to 2014 and future periods should be treated as preliminary and any statistical information may be subject to future adjustment.

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

OVERVIEW OF THE BONDS

The following is only a brief summary of key features of the issue of the Bonds, does not purport to be complete and should be read in conjunction with the rest of this Offering Circular and, to the extent applicable, the Terms and Conditions of the Bonds set out herein.

Issuer:	The International Investment Bank
Lead Manager:	Tatra banka, a.s. Hodžovo námestie 3 Bratislava 1, 811 06 Slovak Republic
Administrator: *(Performing functions of Paying Agent, Calculation Agent and Listing Agent)*	Tatra banka, a.s. Hodžovo námestie 3 Bratislava 1, 811 06 Slovak Republic
Registrar:	Central Securities Depository of the Slovak Republic (in Slovak: *Centrálny depozitár cenných papierov SR, a.s.*).
ISIN:	SK4120010307 séria 01
Aggregate value of the Bonds: *(first tranche)*	EUR 30,000,000
Interest:	The Bonds shall bear a fixed interest of 3.5 % p.a.
Maximum Principal Amount:	EUR 50,000,000
Designation of the Bonds:	Dlhopis IIB 2019
Further Issues:	The Issuer may at any time until the Final Maturity Date issue further tranches of the Bonds under the Conditions up to the Maximum Principal Amount. The Issuer may sell any number of such subsequently issued Bonds by any means the Issuer may deem fit in its sole discretion. Issue price of the Bonds shall be determined by the Issuer from time to time whenever any such future tranche of the Bonds is sold.
Form of the Bonds:	The Bonds shall be issued in book-entry (in Slovak: *zaknihované*) form as bearer securities (in Slovak: *cenné papiere na doručiteľa*).
Status and Ranking of the Bonds:	The Bonds will constitute direct, general and unconditional, unsubordinated unsecured obligations of the Issuer and will at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds will at all times rank at least *pari passu* with all its other present and future unsecured and unsubordinated obligations of the Issuer.
Maturity:	The maturity date of any and all Bonds shall be 21 October 2019.
Redemption:	The Bonds shall be redeemed at par on the Maturity Date.
Early Redemption at the option of the Issuer:	The Bonds may not be redeemed by the Issuer before the Maturity Date. However, the Issuer may purchase Bonds in the open market or otherwise at any price, at any time. The Bonds purchased by the Issuer shall not cease to exist and can be resold by the Issuer, unless the Issuer decides to cancel any such purchased Bonds. The rights and

	obligations under the Bonds purchased by the Issuer shall cease to exist due to their amalgamation in a single person at the earlier of: (a) cancellation by the Issuer and (b) the Final Maturity Date.
Early Redemption upon an Event of Default:	Each Bondholder will have a right to declare all its Bonds immediately due and payable if an Event of Default occurs and is continuing, see Condition 13, "*Early Repayment of the Bonds on Default*".
Put Option:	Each Bondholder will have a right to require the Issuer to repurchase all its Bonds before the Maturity Date upon the occurrence of any Put Option Event subject to a prescribed procedure, see Condition 14, "*Put Option*".
Denominations:	The Bonds will be issued in denominations of EUR 10,000.
Taxation:	All payments in respect of Bonds will be made free and clear of withholding taxes of the Slovak Republic, unless the withholding is required by law. In that event, the Issuer will (subject to and save as provided in Condition 12.5, *"Gross-up*") pay such additional amounts as will result in the Bondholders receiving such amounts as they would have received in respect of such Bonds had no such withholding been required.
Governing Law:	Law of the Slovak Republic.
Jurisdiction:	All disputes relating to the Bonds shall be settled by the courts of the Slovak Republic.
Language:	The Terms and Conditions of the Bonds are written in the English language.
Listing:	An application shall be made by the Issuer for admission of the Bonds to trading on the Regulated Free Market of the Bratislava Stock Exchange. The Issuer may at its discretion also make application to any other regulated market in the European Union.
Depository:	The Bonds shall be registered with the Central Depository. The Bonds may also be held through an ICSD such as Euroclear and/or Clearstream, subject to availability and utilisation of relevant link between such ICSD and the Central Depository, whether direct or indirect.
Selling Restrictions:	For a description of certain restrictions on offers, sales and deliveries of Bonds and on the distribution of offering material generally and in the United States of America, the EEA and the Slovak Republic, see "*Subscription and Sale*".

RISK FACTORS

In purchasing Bonds, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Bonds. You should carefully consider the following information about these risks, together with the information contained elsewhere in this Offering Circular, before deciding to buy any Bonds. Each of these risks could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects or the trading price of the Bonds, and investors could lose all or part of their investment.

The Issuer has described the risks and uncertainties that it believes are material, but these risks and uncertainties may not be the only ones the Group faces. Additional risks and uncertainties relating to the Group that are not currently known to the Issuer, or that Issuer currently deems immaterial, may also have an adverse effect on the Group's business, financial condition, results of operations and future prospects. If this occurs, the trading price of the Bonds may decline, and investors could lose all or part of their investment.

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

The Issuer's operations are focused on the wider global region. As an international organisation composed of its Member States, its results of operations are significantly affected by economic conditions in its Member State countries which may be adversely affected by the global financial and European sovereign debt crises and remain vulnerable to further external shocks.

Investors should consider carefully whether an investment in the Bonds is suitable for them in light of the information in this Offering Circular and their personal circumstances.

Risk factors related to the Issuer and its Group

The Issuer is an entity under international law and the Bonds are not guaranteed by any sovereign

The Issuer is an international organisation operating on the basis of the Statute and intergovernmental Agreement on the Establishment of the International Investment Bank of 10 July 1970, registered with the UN Secretariat, No 11417 (the **Establishment Agreement**). At present, the Member States of the Issuer are: Republic of Bulgaria, Socialist Republic of Vietnam, Republic of Cuba, Mongolia, Russian Federation, Romania, Slovak Republic and Czech Republic. The Establishment Agreement has the status of a treaty under public international law, and the Issuer is an entity under, and subject to, public international law. The Issuer's existence, powers, privileges, immunities, liabilities and operations are subject to and governed by the Establishing Agreement. The Issuer is not subject to regulation by any state. Accordingly, while the Issuer has established policies and procedures approved by the Council and other management bodies to govern its internal operations in accordance with international standards, such as Basel and International Financial Reporting Standards (**IFRS**) standards, the operations of the Issuer are not subject to the external regulatory oversight to which domestic financial institutions established in its Member States are subject.

Although its members constitute sovereign states, the Issuer is a legal entity separate from the governments of its Member States and the agencies of such governments. The Bonds, interest or other amounts due or to become due in respect of the Bonds, constitute obligations solely of the Issuer and do not constitute the obligation of, nor are they guaranteed or insured by, the Russian Federation, the Slovak Republic or any other Member State or sovereign entity or agency thereof.

Withdrawal of a Member State

The Issuer's Statutes provide that any Member State may withdraw its membership by giving the Issuer written six months' notice to that effect. The outstanding rights and obligations including with regard to withdrawal of contributed capital are subject to and shall be governed by the provisions of the Regulation on Withdrawal of Member States from

the Issuer approved by the Council in 2012. Poland and Hungary withdrew from the Issuer in 1999 and 2000 respectively, but due to the absence of a clear procedure of a Member State's withdrawal that would apply then, a final decision concerning the settlement of their rights and obligations with the Issuer had to be made by the Council in 2012. The existing withdrawal procedure sets out details of withdrawal from the Member State's participation in the Issuer's assets and obligations on the basis of the mechanism of "fair value" evaluation applicable at the moment of withdrawal. The withdrawal of a Member State may adversely affect the Issuer's share capital and financial condition, as well as its business, prospects and results of operations.

Withdrawal of the Slovak Republic from the Issuer would also trigger a Put Option Event under the Terms and Conditions of the Bonds. See Condition 14, "*Put Option*".

Adverse global conditions in financial and economic markets

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

However, recent developments, particularly in the Eurozone, have demonstrated that there continues to be significant uncertainty. From April 2010 to date, financial markets have been periodically negatively impacted by ongoing fears surrounding the large sovereign debts and/or fiscal deficits of several countries in Europe (primarily Cyprus, Greece, Ireland, Italy, Portugal and Spain) and the possibility of one or more defaults on sovereign debt. The ongoing sovereign debt crisis across Europe continues to significantly impact the market. In May 2012 and March 2013, the uncertainty surrounding Greece's possible exit from the Eurozone and a levy on certain bank deposits in Cyprus, respectively, further weakened already strained market conditions. For more information on relevant geographic markets, see section "*Relevant Geographic Markets*" of this Offering Circular.

Should any of these nations default on their debt, or experience a significant widening of credit spreads, major financial institutions and banking systems throughout Europe could be destabilised, resulting in the further spread of the ongoing economic crisis, and it is unclear what impact this would have on the recovering economies of the Member States. If the condition of the global and local economic and financial markets does not continue to improve or if conditions deteriorate, it could have an adverse effect on the Issuer's business, prospects, financial condition, cash flows and results of operations.

Risk related to the operations in emerging markets in general

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

Credit risk faced by the Issuer in general

The Issuer's business exposes it to credit risk. The quality of the Issuer's credit exposures will have a significant impact on its earnings. The Issuer estimates and establishes allowances for losses for credit risks and potential credit losses inherent in its credit exposure in accordance with IFRS. The Issuer's ability to assess the creditworthiness of its customers or to estimate the values of its assets may be impaired if the recent adverse financial and economic market conditions render the models and techniques used by the Issuer less accurate in their predictions of future behaviour, valuations or estimates. Any such failure could result in increased default rates.

As a result of the current economic uncertainty, the demand for borrowing from creditworthy customers may decline. In addition, there is a greater likelihood that more of the Issuer's customers or counterparties (including other financial institutions) could become delinquent on their loans or other obligations to the Issuer, which, in turn, could result in a higher level of write offs and provisions for credit losses or requirements that the Issuer purchase assets or provide other funding, any of which could adversely affect the Issuer's and its customers' business, prospects, financial condition, cash flows and results of operations.

Credit risk due to lending concentration

For the reasons of achieving the Issuer's mission, which is to promote development of economies of the Member States, the Issuer's loan and trading portfolio includes, and is likely to continue to include, concentrations in particular Member States. As at 30 June 2014, the Issuer had provided EUR 52 million loans to customers. Out of the total loans to customers, 46% was provided to the customers based in Mongolia, 16% to the customers based in Slovakia and 32% to the customers based in Bulgaria.

In terms of sector concentration, 39.9% out of total loans to customers were provided to the customers in the real estate and construction sectors as at 30 June 2014, compared to 53.7% as of 31 December 2013.

The Issuer's loan portfolio is considerably concentrated. As at 30 June 2014, the loan portfolio included long term loans to five banks with the total amount of loans to each of them exceeding 10% of the total long-term loans to banks, ie the total amount of such major loans accounted to EUR 70 million out of the total EUR 96.6 million of all long-term loans to banks (EUR 49 million out of EUR 59 million as of 31 December 2013). Out of the total long-term loans to banks, 28% were provided to banks based in Mongolia, 57% to banks based in the Russian Federation and 16% to banks based in Vietnam.

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

The Issuer has limited operational history

Although the Issuer was established in 1970, it has a relatively short operational history in the post-Soviet era. The Issuer has adopted new development strategy at the end of 2012 with an overall objective of transforming it into a modern international development bank. Most of the loans extended before 2012 were impaired and written off or sold in 2013. New risk management system and policies and also the IFRS and Basel II reporting were implemented recently. The main share of the growth in the total loans portfolio (96.4% increase in loans net of allowance for impairment in 2013) and in the securities portfolio (35.6% increase in 2013) is also the result of the Issuer renewed activities in the last two years.

Accordingly, the Issuer has a limited operating history on which an investor can base its evaluation of the Issuer's business, prospects, financial condition, cash flows and results of operations. There can be no assurance that the Issuer will be successful in implementing its business strategy in the future, and any failure to do so could have a material adverse effect on its business, prospects, financial condition, cash flows and results of operations.

Issuer's lending and investment activities are aimed at development projects in the Member States and the profitability is not the key driver for Issuer

The Issuer is a part of an international development institutions system and, hence, its main investment objectives involve lending to development projects in its Member States. Operations in some of the Member States in some type of the projects may involve lower rate of returns than other purely commercial lending entities would demand. Profitability of the investment projects is, therefore, not the Issuer's main objective and may remain low despite the expected rise in the interest income as the loan portfolio grows. As a result, although the Issuer has implemented robust risk management and credit approval systems, future profitability may be restrained owing to the nature of the Issuer's

development lending business, which in turn may have a negative impact on the financial conditions and prospects of the Issuer.

Foreign exchange rate risk and interest rate risk

As a financial institution, the Issuer is exposed to foreign exchange rate and risk. Movements in foreign exchange rates may adversely impact the Issuer's borrowers, which may in turn adversely impact the nature of its exposure to these borrowers. Despite the Issuer has implemented certain hedging strategies, volatility in foreign exchange rates and interest rates could adversely affect the Issuer's ability to meet its obligations under the Bonds and its business, financial condition and results of operations.

Market risk in connection with the investment portfolio

As at 30 June 2014, the Group was holding a material volume of available-for-sale investment securities in the amount of EUR 146 million out of which EUR 115 million was concentrated in Russia. Majority of the portfolio is composed of corporate bonds (mainly state-owned entities) while a smaller portion is formed by government bonds issued by the Member States. As a significant part of the Group's business is generated by trading activities relating to this portfolio, which is susceptible to market fluctuation and price volatility, prospects of the Group may be impaired by its ability to finance this portfolio or to regain its investments. Market price fluctuations in the large investment security portfolio may therefore materially and adversely affect the Group's business, financial condition, results of operations and prospects.

The current crisis in Ukraine and responses by the United States, EU and other countries to Russia's actions relating to Ukraine create significant political and economic uncertainty which could adversely impact the Group's business and financial condition

The ongoing significant civil unrest and political instability in Ukraine has affected the relations between the Russian Federation and other countries. The civil unrest and armed conflict in Ukraine have resulted in opprobrium from the United States, the EU and other countries against the Russian Federation. Amongst other measures, The United States, the EU and other jurisdictions have imposed sanctions on a number of former Ukrainian governmental officials, Russian government officials and Russian individuals, Russian companies and banks, and non-Russian companies holding assets in Russia. These sanctions include limitation on trading in financial instruments, asset freezes and the blocking of funds, property and interests of such persons and entities and entities controlled by them, as well as travel limitations.

Although the Issuer is an international organisation and as such is explicitly exempted from the EU sanctions regulations, the foregoing events have resulted, and may result in future, in significant volatility on Russian stock exchanges and the securities of Russian issuers traded on foreign exchanges, significant overall price declines and capital outflow, and significant volatility in the exchange rate of the rouble against the U.S. dollar and euro. In addition, a number of governments have suspended cooperation on intergovernmental initiatives and agreements. These and other sanctions, restrictions or other measures may result in a further deterioration of economic conditions in Russia. Partly in response, credit rating agencies have also downgraded or placed on negative watch their ratings of the Russian Federation and a number of Russian banks.

To the extent the Issuer (although being an international organisation) is perceived as having a connection to the Russian Federation and also because of the Issuer's business and value of its assets is influenced by general economic conditions in the Russian Federation and in other Member States, a downturn in general economic conditions in the Russian Federation and other Member States as a result of the Ukraine related sanctions and/or the ongoing conflict between the Russian Federation and Ukraine could have a material adverse effect on the Issuer's business, results of operations, financial condition or prospects. Ongoing or heightened tensions between Russia and the United States, member states of the European Union, Ukraine or other countries, or the imposition of further sanctions on Russian persons and entities, or the impact of actions taken by the Russian government in response to actions by the United States, EU and other governments, could have a further adverse effect on the Russian economy and economy of the Member States and consequently, a material adverse effect on the Group's business, financial condition, results of operations and prospects.

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

The Group's ability to access the capital markets and other forms of financing (or refinancing), and the costs connected with such activities, depend in part on the Issuer's credit ratings. As at the date of this Offering Circular, the Issuer has a long-term foreign currency issuer default rating of A3 with stable outlook by Moody's and BBB- with a negative outlook by Fitch. Fitch has originally assigned its rating in December 2013 with stable outlook. The negative outlook was assigned to the Issuer by Fitch in 2014 due to downgrade of the Russian Federation as the majority shareholder. Moody's has issued its rating report in August 2014.

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

Rating downgrade to the sub-investment grade or withdrawal of all credit ratings would also trigger a Put Option Event under the Terms and Conditions of the Bonds. See Condition 14, "*Put Option*".

Conditions and actions of Member States may affect the Issuer

Although the Issuer is an international organisation having a legal personality separate from its Member States, the Issuer and its business operations may be affected by decisions of the Member States in their relations with other nations. These decisions may result in adverse effects on the Issuer and the business environment in which the Issuer and its counterparties operate, including the reduction or cessation of commercial activity by private counterparties as the result of perceived increases in operational risk, or more formal actions by countries or international organisations to limit or preclude business activity by their nationals or organisational participants with the Issuer or in the areas in which the Issuer operates. No assurance can be given that such circumstances in the future will not adversely affect the creditworthiness of borrowers and increase the Issuer's funding costs, and accordingly, adversely affect the Issuer's business, prospects, financial condition, cash flows and results of operations.

The Issuer decision making process may block certain actions of the Issuer and the Issuer's governance model is subject to changes

The Establishment Agreement and Statute provide for the "one member – one vote" principle for voting in the Council, the supreme governance body of the Issuer. While this principle ensures equality of the Member States irrespective of their relative contribution into the capital of the Issuer, it also means that a single Member State can block certain key decisions which may be necessary for further development of the Issuer, which in turn may adversely affect the Issuer's business, prospects, financial condition, cash flows and results of operations.

On the Council meeting in May 2014, a protocol amending the Establishment Agreement and its Statutes was signed by Bulgaria, Cuba, Mongolia and the Slovak Republic. As of the date of this Offering Circular, the protocol was signed by all Member States except for Romania and Czech Republic. Following the signing by all Member States (expected by 1 November 2014), the protocol shall be subject to completion of the required ratification procedures in the Member States. The ratification process is expected to be completed in 2015, however no assurance can be given in this regard. Among the most important changes is the transition from the principle "one country-one vote" to a qualified majority voting. As the Russian Federation with 55 % of the paid-in capital is the largest contributor, the adopted change can lead to an increase in the influence of the Russian Federation on the decision making of the Issuer. Although the Russian Federation itself has declared that it does not intend to maintain majority in the Issuer and the share of the Russian Federation is expected to be diluted if Hungary re-joins the Issuer in the near future, as well as by expected additional contributions to the paid-in capital by other Member States. The new voting system will provide additional protection to other Member States' rights by further "buffers" as described in more detail in section "*Description of the Issuer - Management and governance - Proposed governance changes*" of this Offering Circular.

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

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

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

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

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

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

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

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

The Bonds are governed by the Slovak law and any disputes arising out of or in connection with this Offering Circular are subject to jurisdiction of the Slovak courts. The Slovak Republic is an EU Member States and the judgments rendered by Slovak courts are generally enforceable in other EU Member States. Claims brought by investors in different EU Member State countries will be subject to the European Union conflict of laws rules included in the Council Regulation (EC) No 44/2001 on Jurisdiction and the Recognition and Enforcement of Judgments in Civil and Commercial Matters (the "Brussels I") and shall be enforceable in accordance with it.

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

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

Risk factors related to the Bonds and market in general

There may not be an active trading market for the Bonds

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

The Bonds do not limit incurrence of additional indebtedness

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

Taxation

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

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

Change of law

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

Exchange rate risks and exchange controls

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

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

Fixed rate Bonds are subject to interest rate risks

The Bonds will bear fixed rate interest. Investment in fixed rate Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the fixed rate Bonds.

Credit ratings may not reflect all risks

The Issuer was rated A3 by Moody's in August 2014 and BBB- by Fitch in December 2013. One or more independent credit rating agencies may assign other credit ratings to the Issuer or to the Bonds. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors which may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Foreign Account Tax Compliance Act (FATCA)

In all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment from the Issuer to the Administrator for the purposes of distributions to the investors. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA), provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Bonds are discharged once it has paid the Administrator and the Issuer has therefore no responsibility for any amount thereafter transmitted through hands of the custodians or intermediaries.

USE OF PROCEEDS

The net proceeds of the issue shall be used by the Issuer to obtain resources for expansion of its existing loan portfolio and to finance activities in the Slovak Republic.

DESCRIPTION OF THE ISSUER

INTRODUCTION AND HISTORY

The Issuer is a multilateral financial institution with headquarters in Moscow, established in 1970 and operating since 1 January 1971.

The Issuer enjoys the status of an international organisation and operates on the basis of the intergovernmental Agreement on the Establishment of the International Investment Bank of 10 July 1970 (the **Establishment Agreement**) and the Statutes. The Establishment Agreement was ratified by the member countries of the Issuer and registered with the Secretariat of the United Nations under the number 11417 in December 1971.

The mission of the Issuer is promotion of social and economic development, growth of well-being of the population and economic cooperation of the Member States. The Issuer is primarily engaged in lending for the benefit of national investment projects in the member countries of the Issuer. The Issuer provides financing for leading national financial institutions with partial state ownership, development banks, with participation of export-import banks/agencies or in partnership with other international development institutions. The Issuer also performs transactions with securities and foreign currency. The Issuer’s mandate is the support of Small and Medium Enterprises (SME), sustainable projects and export-import operations in Member States. Therefore, the Issuer is determined to extend its activity within Member States through diversified and in-depth cooperation with export credit agencies, national organisations for development, multilateral development banks and other international finance institutions with a high rate of credibility.

At present, the Member States of the Issuer are: Republic of Bulgaria, Socialist Republic of Vietnam, Republic of Cuba, Mongolia, Russian Federation, Romania, Slovak Republic and Czech Republic (the **Member States**).

The Issuer operates from its office at 7 Mashi Poryvaevoi St., Moscow, 107078, Russian Federation. Its telephone number is +7 (495) 604-73-00.

ORGANISATIONAL STRUCTURE

The Issuer’s Group (the **Group**) currently consists of the Issuer and one subsidiary, CJSC IIB Capital (the **Subsidiary**). On 2 July 2012, the Issuer adopted the decision to establish a CJSC IIB Capital (a 100% subsidiary). The share capital of the Subsidiary at its establishment amounted to RUB 10 thousand (EUR 250). In 2013, the Issuer made an additional contribution to the share capital of the subsidiary in the amount of EUR 11,161 thousand.

Activities of the Subsidiary since the beginning of 2013 are focused on non-performing loans and on management of the Issuer’s property. This allows the Issuer to improve the quality of property management, minimize administrative and maintenance costs, improve the personnel structure, taking into consideration the core objectives of the Issuer.

STRATEGY

Relaunch Program

In 2013, activities of the Issuer were focused on implementation of the Issuer’s Strategy 2012-2017 and Relaunch Program, which were unanimously approved at the 98th meeting of the Issuer's Council in November 2012 and designed to transform the Issuer into a full-service multilateral development institution. The key strategy goal of the Issuer is to enhance the Issuer’s role for its Member States by promoting steady growth of mutual trade and investment activities in particular by supporting SMEs and socially important projects in the Member States. Key developments and specific strategic goals are as follows:

- Creation and expansion of a qualitatively new loan portfolio under new principles of credit policy: focus on offering credit products with a low risk level, reduction of share of direct lending to ultimate borrowers and refocus to lending via partner banks (providing special purpose credit facilities for the development of the

SME sector in the member countries, participating in syndicated lending), extension of geographical diversification of investments;

- Fulfilment of the old loan portfolio rehabilitation program by formation of the client base, involving practical steps aimed at attracting reliable borrowers: to that end, the Issuer is taking more effective measures to establish business contacts with the representatives of the business circles of its member states, participate in meetings with trade missions, investment funds and consulting companies, international financial institutions, development banks of the Member Countries for the purpose of implementing various forms of lending, including syndicated lending;

- Alignment of the majority of internal regulations with best practices of modern international development institutions (credit policy, strategic and current planning), introduction of a new system of risk management consistent with recommendations of the Basel Committee on Banking Supervision, operation of a full-service compliance control;

- Introduction of a new organisational structure (with division on front, middle and back office) and employee motivation system consistent with best practices of leading multilateral development banks;

- Strategic focus on the development of partnership relations and Issuer's brand recognition. Conclusion of 20 agreements on cooperation with leading financial institutions of member countries (agreements with VEB Group came into practical effect (including OJSC SME Bank, OJSC Russian Agency for Export Credit and Investment Insurance, CJSC State Specialised Russian Export-Import Bank), as well as with several major Vietnamese and Mongolian banks). The following leading development banks invite the Issuer to participate in syndicated lending: IFC (International Financial Corporation, 2 syndicates), EBRD (European Bank for Reconstruction and Development, 1 syndicate), the Netherlands Development Finance Company (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V., 1 syndicate). Official accession of the Issuer to the Master Cooperation Agreement with IFC on 31 January 2014 means that the Issuer joins 19 leading development institutions and gets an opportunity to participate in syndicated lending projects on a regular basis. The Issuer works on practical directions of cooperation with financial institutions such as European Investment Bank, KfW and The Black Sea Trade and Development Bank;

- Further development of relations with existing partner financial institutions and search for new counterparties, including completion of KYC and compliance procedures, update of information and execution of different agreements;

- Maintenance and improvement of investment grade rating. The Issuer was rated A3 by Moody's in August 2014 and BBB- by Fitch in December 2013. The strategy of the Issuer includes obtaining ratings from other international rating agencies and either maintain or improve the assigned ratings in order to increase the financial recourse base of the Issuer.

Key short term objectives for 2014 and 2015

These include further reorganisation of the management system, fostering growths of loan portfolio using existing lending tools, expanding and diversifying liabilities structure, building and expanding partnership networks and reform of human resources to increase overall professional skills and efficiency of the Issuer's employees.

Key aims of the short term plans are to ensure sound development of lending and investment portfolios, consolidation of the borrowing history and expansion of partnership network.

Key mid term objectives for 2015-2017

These include diversification of product line, including participation or establishment of investment funds, continuing development of lending policy from providing financial resources via specialised financial intermediaries to project financing and expansion of assets portfolio through sustainable resource raising from the capital markets.

BUSINESS STRENGTHS

The Issuer's principal business strengths include:

Status

The Issuer is a supranational intergovernmental organisation, which presupposes its tax-free status (zero VAT rate is applied). In the territories of its Member States, the Issuer is immune from all direct taxes and charges whether national or local and from customs duties and restrictions on the import and export of articles destined for official use. The Issuer enjoys privileges in respect of priorities, tariffs and rates of postal, telegraphic, and telephone communications which are accorded to diplomatic representations in the Member States.

As a multilateral development institution, based on certain provisions of the Establishment Agreement (in addition to accepted customary international practices), the Issuer itself, representatives of the Member States in its Council and officials of the Issuer shall enjoy privileges and immunities necessary to carry out their functions and attain the purposes provided for in the statutory documents of the Issuer in the territory of each Member State. This is the basis of the Issuer's preferred creditor status in the Member States.

The Issuer is not subject to regulation by the Central Banks of the Member States, including the Russian Federation as the country of residence.

The Issuer is not subject to the sector specific sanctions against certain state-owned Russian financial and credit institutions, imposed by the Council Regulation (EU) 2014 of 31 July 2014. There is a special reservation in the fifth recital of the Regulation that Russian-based institutions with international status established by intergovernmental agreements with Russia as one of the members are not subject to sanctions.[1]

Strong capital base

The authorised capital of the Issuer amounts to EUR 1.3 billion, which represents the Issuer's equity stated in the Establishment Agreement. Out of that amount, EUR 257.6 million consisted of the paid-in capital and EUR 1.04 billion consisted of the unpaid capital as at 30 June 2014. The latter unpaid portion further consisted of EUR 746.1 million callable capital divided between the Member States (ie actual cash contributions made by the Member States), and EUR 296.9 million which is expected to be subscribed by Hungary and any other new Member State in the future. The new statutory documents provide that the authorized capital be increased to 2 billion which will provide room to potential new members to subscribe to callable capital upon their joining. After the payment by Bulgaria of its additional contribution in July 2014, the Issuer's paid-in capital was EUR 270 million as at 19 August 2014. In addition, Vietnam paid its contribution of EUR 2.6 million on 10 October 2014 which led to the Issuer's paid-in capital increase to EUR 272.6 million. There were no further changes to the Issuer's paid-in capital as at the date of this Offering Circular.

The total equity (including retained profits and other equity funds) as of 30 June 2014 was EUR 370.4 million compared to EUR 352.4 million as of 31 December 2013.

In order to strengthen the capital position of the Issuer, a decision of the 99th meeting of the Council which took place in Bratislava in June 2013 was made on the recapitalisation of the Issuer. The decision states that additional EUR 100 million shall be raised through contributions by the Member States by 2015. Slovakia has fulfilled the obligations by producing a payment amounting to EUR 6.3 million to the authorised capital of the Issuer on 27 February 2014. The contribution of the Russian Federation in the amount of EUR 10 million was made on 8 May 2014.

On 14 July 2014, the Government of the Republic of Bulgaria made an additional contribution of EUR 12.4 million to the authorised capital of the Issuer and on 10 October 2014, Vietnam paid its contribution of EUR 2.6 million. The Issuer's paid-in capital thus increased to EUR 272.6 million and Bulgaria and Vietnam completely fulfilled their respective obligations under the Issuer's recapitalisation program. The Bulgaria's share is now 15.5% which makes it

[1] Recital 5 reads: *In this context, it is appropriate to prohibit transactions in or the provision of financing or investment services or dealing in new bonds or equity or similar financial instruments with a maturity exceeding 90 days issued by state-owned Russian financial institutions,* ***excluding Russia-based institutions with international status*** *established by intergovernmental agreements with Russia as one of the shareholders.*

the second shareholder of the Issuer after the Russian Federation. Following Slovakia, Russia and Bulgaria, Vietnam became the fourth country to financially confirm the new development strategy of the Issuer. The other countries are expected to fulfil their obligations subject to implementation of relevant interstate procedures.

Strong support

One of the key elements of the Issuer's reliability is the composition of the Member States, ie the Russian Federation, Czech Republic, Bulgaria, Romania, Slovakia, Mongolia, Vietnam and Cuba). As at 13 October 2014, approximately 96% of the paid-in capital is held by countries with investment grade ratings, including four EU countries. Average rating of the Member States was "BBB" according to the rating report of Fitch of December 2013. The Member States agreed to inject additional EUR 100 million of new capital during 2014 and 2015 to give the Issuer means to finance its ambitious new strategy, indicating the common commitment to revive the Issuer. In addition, a high level of support from the Member States is confirmed by comfort letters. These letters do not include legally enforceable guarantees, but clearly declare support to the goals and objectives of the Issuer's mandate, which is to promote the development of national economies, the cooperation among them, the implementation of structural economic reforms in the Member States and to facilitate their deeper integration into the world economy.

Another sign of the strong support is the fact that the Member States (through their representatives at the Council) did not require any profit distributions from the Issuer in the last 10 years. Accordingly, all profits were retained thus strengthening the capital position of the Issuer.

During its 101st meeting in Havana in May 2014, the Council of the Issuer approved a program on measures of support of the Issuer by its Member States. The basic points are the following:

- the Issuer's supranational status, its mission and activities are to be promoted by the Member States, which recognise that identification of the Issuer in the international community as a multilateral development bank with a supra-national status with the immunities and privileges similar to other multilateral development banks plays a crucial role in the development of the Issuer. Several heads of the Delegations of the Member States in the Council during their meetings with the representatives of rating agencies confirmed Member States' support of the Issuer's activities.

- Support in finding projects on the territory of each Member State. Part of the Issuer's current pipeline consists of such projects.

- Access to national capital markets and other sources of funding in the Member States. Such access requires the adoption of relevant laws or regulations in certain jurisdictions, inclusion of the Issuer in the appropriate lists of MFIs that are allowed to make placements, as well as in the lists of MFIs in assets of which pension and other funds and private investors can invest. For example, in addition to this debut issue in Slovakia, the Financial Supervision Commission of the Republic of Bulgaria has confirmed the possibility for the Issuer to issue bonds on Bulgarian market and for Bulgarian pension insurance companies to invest funds into the Issuer's bonds and deposits as long as the domestic legal requirements are met. Central Bank of the Russian Federation included the Issuer's bonds into its lombard list. Under the Decree of the Government of the Russian Federation No. 852 dated 23 August 2014, the Issuer was added to the list of international financial institutions whose securities can be invested into with pension savings of the state management companies (Russian entities responsible for pension funds management), with the payment reserve resources of the state management companies, and with temporary surplus funds of state corporations and state companies. In addition, the Czech Republic also expressed its willingness to have a bond issue by the Issuer in its territory.

Sufficient capital adequacy and attraction of funding

The Basel II requires the maintenance of capital adequacy at the level of at least 8% and of at least 4% for Tier I capital. The Council of the Issuer has set out level of capital adequacy of at least 25%. At the end of 2013 the Issuer's metrics were 102.3% and 92.8% respectively. As at 30 June 2014 the Issuer's metrics were 95.3% and 87.2% respectively. The Council of the Issuer has also set a conservative 250% limit on the financial leverage of the Issuer.

Fitch assessed the Issuer’s reliability by assigning a debut credit rating (BBB-) in December 2013. Moody’s assigned the Issuer even stronger investment grade rating A3 in August 2014, with stable outlook. The Issuer is planning to diversify the resource base through the use of a broad spectrum of funding sources. The Issuer attracted short-term funds from financial institutions in the form of deposits or repurchase transactions with securities amounting to EUR 57 million, which represents 44% of the Issuer’s total liabilities as of 30 June 2014.

In order to build its track record and reputation as an issuer and borrower in the financial markets, the Issuer for the first time in its history entered debt capital market in April 2014 with the Russian Rouble bond issue with the nominal value of RUB 2 billion with 1.5 year put-option, listed on MOEX (Moscow stock exchange). The Issuer also signed its first long term bilateral loan facility agreement on 25 April 2014. The lender is Rosbank (Société Générale Group) and the amount of the facility is USD 25 million.

STATUS AND IMMUNITIES

The Issuer is an international organisation. From the legal viewpoint, the Issuer is a derivative subject of international law, inasmuch as the existence and activities of the Issuer are based on a declaration of will as expressed by its Member States and reflected in its constitutive documents. Therefore, the Issuer´s legal personality and legal capacity are established by its constitutive documents and, to the extent not inconsistent therewith, by other international treaties as may be applicable to the Issuer, for example by the Agreement between the Government of the USSR and the International Investment Bank on Matters Related to the Residence of the International Investment Bank in the USSR dated 23 December 1977 (the **Host State Agreement**) and derivative international legal instruments.

Constitutive documents of the Issuer are the Establishment Agreement of the Issuer dated 10 July 1970 along with the Statutes of the Issuer which is attached to the Agreement. The Establishment Agreement and the Statutes (collectively, the **Constitutive Documents**) are, by their nature, an international treaty. Due to the nature of international treaties, provisions of the Constitutive Documents and the Host State Agreement generally prevail over relevant provisions of national legislations of the Issuer´s Member States.

Based on the foregoing, the Issuer is a special subject of law which is immune from general legal treatment rules applicable to other legal entities operating in the territory of the Member States. In particular, the Issuer is not subject to various regulatory requirements of the Member States’ legislation, including licensing, capital adequacy and information disclosure requirements.

The Constitutive Documents and the Host State Agreement contain an extensive list of privileges and immunities enjoyed by the Issuer and its officers. Such privileges and immunities, as granted to the Issuer, expressly make it exempt from certain provisions of national legislations. In particular, the Issuer is exempt from tax payments, and has immunity from judicial and administrative proceedings. Further, the Issuer is exempt from customs duties and restrictions on export and import and also its assets and transactions are immune from court and enforcement proceedings, unless such immunity is expressly waived by the Issuer.

BUSINESS

According to the segment analysis in the Issuer's financial statements, the Group identifies the following three operating segments: (i) credit investment activity, which comprises lending activity including long-term corporate and interbank financing, (ii) treasury, which includes operations in financial markets, transactions with securities , derivative financial instruments, foreign currency and liquidity management and (iii) other operations, consisting mainly of the operational leasing services, credit portfolio management and other non-core operations. The following table presents revenues from each segment in EUR million in each 2012, 2013 and six months periods ended 30 June 2013 and 30 June 2014:

(EUR million)	**Year ended 31 December 2012**	**Year ended 31 December 2013**	**H1 ended 30 June 2013 (unaudited)**	**H1 ended 30 June 2014 (unaudited)**
Credit investment activity[2]................	- 1.1	- 3.6	4.2	- 0.1
Treasury..	8.8	12.5	8.2	7.1
Other operations................................	7.3	12.5	3.9	4.5
Profit for the period[3]......................	**2.3**	**2.6**	**8.7**	**2.7**

In terms of the Group's assets, the net value of the assets of each segment in EUR million was as follows in each 2012, 2013 and six months periods ended 30 June 2013 and 30 June 2014:

(EUR million)	**Year ended 31 December 2012**	**Year ended 31 December 2013**	**H1 ended 30 June 2013 (unaudited)**	**H1 ended 30 June 2014 (unaudited)**
Credit investment activity................	49.1	101.5	100.7	145
Treasury..	200.3	189.2	183.3	239.3
Other operations................................	117.7	120.4	115.3	115.8
Total assets	**367.1**	**411.1**	**399.3**	**505**

Credit investment activity

Lending business in general

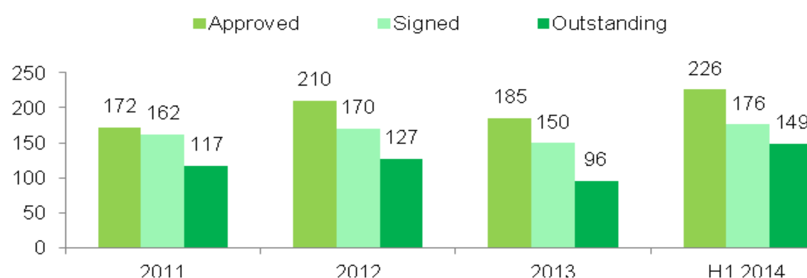
The principal lending activity of the Issuer is to facilitate the development of small and medium-sized businesses (**SME**) in the Member States and participate in financing of sustainable projects in these countries. In 2013, the Issuer changed priorities of its loan operations both in terms of its institutional and industry focus and in terms of principles of selecting partners and counterparties. The Issuer's key strategic counterparties are national development institutions, export and import banks and agencies, international financial organisations and development banks.

The main products of the Issuer in SME segment are credit lines through selected financial institutions and syndicated loan facilities with maturity from 1 to 7 years and loan volumes up to EUR 40 million. For corporate and other borrowers (national development banks and other financial institutions), the main products are syndicated loans for financial institutions in the Member States with loan maturity from 1 to 15 years and syndicated loans for investment projects with loan maturity 3 to 15 years, in each case with loan volume up to EUR 50 million. However, in practice,

[2] The figure shows the interest income and other segment income net of interest expenses, loan impairments and other segment expenses.
[3] The total profit includes other elements such unallocated income and expenses as well.

the average amount of a single loan is between EUR 15 and 20 million. In the future, the Issuer may also undertake equity and fund investments in line with its strategy.

The following chart shows the development of the Issuer's loan portfolio in 2011, 2012, 2013 and in the six months ending 30 June 2014 in EUR million (not taking into account allowance for impairment of loans):



The loan portfolio is primarily denominated in euro. 14 % of the portfolio net of allowance consisted of loans extended in USD as of 30 June 2014. No part of the loan portfolio is securitised.

In terms of maturity, as of 30 June 2014, 0.5% of the long-term loans to banks will be repaid between 1 to 3 months, 5.9% between 3 months to 1 year and 93.6% will be repaid between 1 year to 5 years. With regard to loans to customers net of allowance , as of 30 June 2014, there were 0.7% loans to be repaid between 1 to 3 months, 24.2% between 3 months to 1 year, 61.4% will be repaid between 1 year to 5 years and 4% after5 years.

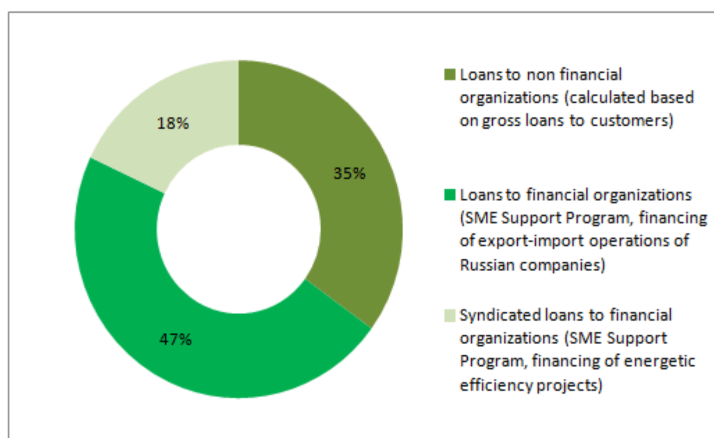
Approach to SME lending

As at 30 June 2014, 47% (EUR 69.7 million) of the Issuer's loan portfolio was provided to the SME segment through financial intermediaries. The Issuer considers financing of the SME segment as particularly important part of its mission. The SMEs' classification is not unified in the Member States, therefore, each potential borrower is considered on the basis of number of personnel, revenue and total assets of a company. Under the current SME support program funds are provided by the Issuer to its financial intermediaries for the purposes of SME project financing only. The Issuer supervises proper utilisation of the funds through monitoring of a number of key parameters of the financing to the ultimate SME borrowers. The following areas are considered as priorities for the SME financing:

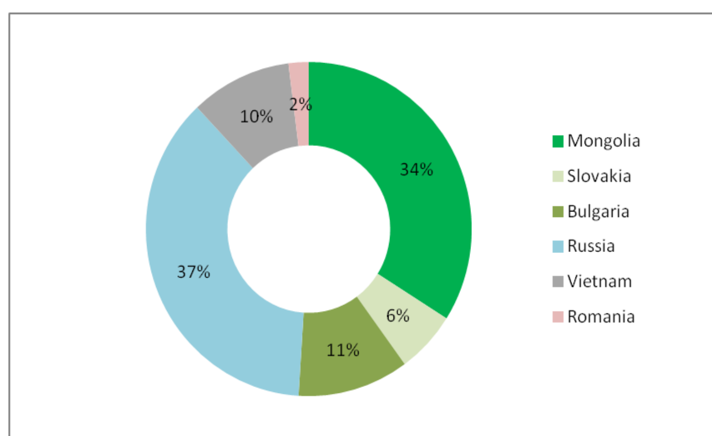
- Innovations. This includes technology start-ups, potential to commercialisation of new technologies based on SMEs' intellectual property and financing of acquisition of new equipment (under 5 year old).
- Modernisation. Financing of new premises and equipment and real estate to expand production.
- Resource and energy efficiency. This includes financing of equipment to provide efficient use of resources and to calculate resources used.
- Social responsibility. Financing of projects stimulating mutual exchange between the Member States in terms of technology transfer, know-how and professionals and projects to increase employment and new jobs generation in the Member States.

Industry sectors and geographic structure of the loan portfolio:

The following charts show the structure of the Issuer's loan portfolio of EUR 149 million by industry sector as of 30 June 2014:



In terms of geographic distribution, the loan portfolio structure as of 30 June 2014 was the following:



The Issuer's loan portfolio is considerably concentrated. As at 30 June 2014, the Issuer had in its portfolio long term loans to five banks with the total amount of loans to each of them exceeding 10% of total long-term loans to banks. Total amount of such major loans accounted EUR 70 million out of the total EUR 96.6 million of all long term loans to banks. Out of the total loans to banks, 28% were provided to the banks based in Mongolia, 57% to the banks based in the Russian Federation and 16% to the banks based in Vietnam. Also, as at 30 June 2014, the Issuer has extended EUR 52 million loans to customers, out of which 46% was provided to the customers based in Mongolia, 16% to the customers based in Slovakia and 32% to the customers based in Bulgaria. In terms of sector concentration, 55% out of total loans to customers were provided to the customers in in the real estate and construction sectors as at 30 June 2014.

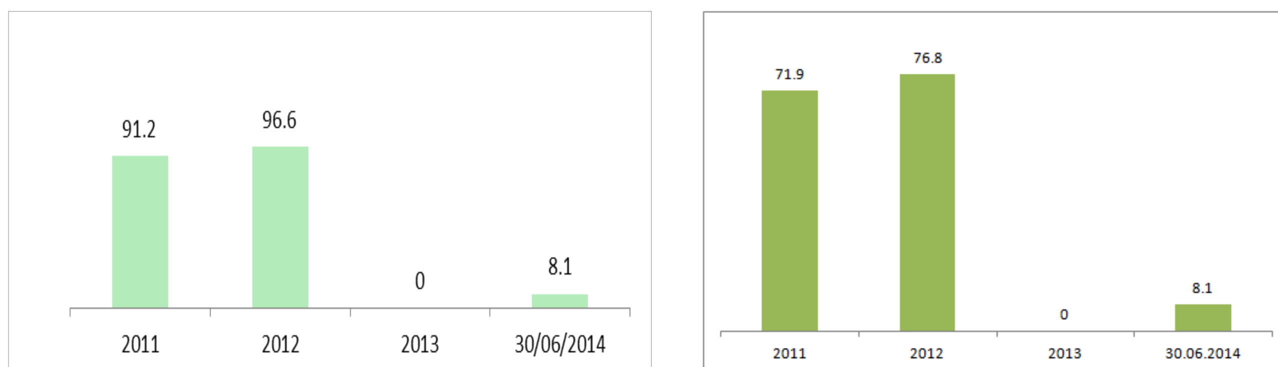
Interest income and margin

Increase in the lending activity in 2013 has led to a significant increase in the interest income in 2013. The Issuer's total interest income (including lending and other activities) before allowance for loan impairment was EUR 12.9 million in 2013, compared to EUR 8.7 million in 2012. For the first half of 2014, the interest income was EUR 6.3 million. The Issuer's net interest margin was 4.2% in 2013, compared to 2.7% in 2012 and 2011. For the first half of 2014, the net interest margin was 3.7%.

Non-performing loans

Before 2013, the Issuer had significant historic burden in terms of the NPLs. Total value of NPLs as of the beginning of 2013 was EUR 96.6 million, whereas total number of NPLs was 11. Significant part of the NPLs portfolio was sold in

2013 and the Issuer's Council agreed to write off the remaining part of the NPLs by 31 December 2013. The following charts show the development of the NPLs and loan loss provisions in 2011, 2012, 2013 and the first six months of 2014:



Loans to borrowers in the Republic of Cuba, 100% provisioned, are not included in the diagrams above.

As of 30 June 2014 the total amount of provisions made according to internal provisioning instructions constitutes 2.42% (EUR 3.6 million) of total outstanding Issuer's loans as of 30 June 2014. The 2014 increase of the NPLs and corresponding provisions is attributable to a default by single borrower, Slovak company Dixia Sollaris s.r.o. under an older project financing facility signed in 2010 (before the Relaunch Program) to develop multi-purpose real estate project house in the centre of Bratislava. Based on the petition by the Issuer, Dixia Sollaris s.r.o. is now in a court supervised restructuring proceeding which is expected to result in the sale of the assets pledged to the Issuer by the end of 2014.

Deposits with the National Bank of the Republic of Cuba

The Issuer had a historic exposure against the National Bank of the Republic of Cuba. As part of restructuring of reciprocal claims and liabilities, 100th meeting of the Council approved and signed an agreement under which the parties confirmed the debt of the Republic of Cuba owed to the Issuer, converted the debt into euro and made a partial write-off of loans provided by the Issuer to borrowers in the Republic of Cuba. The parties also approved the principles and terms of settlement of the rest of the debt. The debt was restructured into new deposits with the National Bank of the Republic of Cuba, and, as long as this step was a part of the agreed restructuring process, it did not result in additional exposure. The Issuer created a 100% allowance for impairment of these deposits in the total amount of EUR 35 million. Allowance was created in earlier periods and it has not been recovered in 2013 despite the restructuring described. Accordingly, the Issuer believes that the exposure to borrowers in the Republic of Cuba is neutralised and will not have further impact on the financial condition of the Issuer.

Trade finance

The Issuer intends to broaden its portfolio of trade and export finance products to provide its customers with the full range services, including letters of credits (confirmations, advising, acting as nominated bank etc.), guarantees against counter-guarantees, reimbursement undertakings, covering documentary operations of counterparty banks, post-financing of letters of credit, trade-related bilateral loans and ECA-covered finance, covering export from the Member States.

In April 2014 a Multilateral Memorandum on Cooperation was entered into between the Issuer and Member States' export credit agencies: EXIAR (RU), EXIMBANKA SR (SVK), EGAP (CZ), BAEZ (BU) and EximBank Romania (RO). The Multilateral Memorandum on Cooperation serves as a basis for the Issuer's acting as a bridging financing institution while the ECAs provide insurance coverage to projects between its respective Member States. The Issuer aims to discuss various opportunities for cooperation with financial institutions in trade and structured finance to find the most efficient solution for each case.

Treasury - investment and trading activities

As of 30 June 2014, the Group had treasury assets of EUR 239.3 million, compared to EUR 189 million as of 31 December 2013. A significant part of the Group's profits is generated by its investment and trading activities, EUR 7.1 million in the six months period ended 30 June 2014 compared to EUR 8.2 million in the six months period ended 30 June 2013, and EUR 12.4 million for the year 2013.

The value of the Group's portfolio of available-for-sale investment securities was EUR 146 million as at 30 June 2014, compared to EUR 129.9 million as at 31 December 2013. The portfolio consisted of government bonds of the Member States, ie EUR-denominated and USD-denominated securities issued or guaranteed by the Ministries of Finance of these countries, maturing between 2017 and 2020. The annual coupon rate for these bonds varied from 1.5% to 6.5% as at 30 June 2014.

The portfolio also included EUR-denominated bonds issued by the city of Moscow, maturing in 2016. The annual coupon rate for these bonds was 5.1% and corporate bonds issued by major companies and banks of the Member States and EU Member States, maturing between 2014 and 2025. The annual coupon rate for the corporate bonds varied from 3.0% to 8.1% as at 30 June 2014. Most of the Group's portfolio (EUR 115.4 million) of available-for-sale investment securities was concentrated in Russia as at 30 June 2014.

As at 30 June 2014, 20% was in government bonds of the Member States and bonds of regional governments. All investments in corporate bonds were made in respect of investment grade fixed income securities (10.4% A-AAA and 69.4% BBB).

Other operations

The Group's other activities are non-core activities consisting predominantly from lease of its building and other property. The Group rents part of its building under operating lease agreements. In 2013, the Group's income from lease of investment property amounted to EUR 7.96 million, compared to EUR 7.3 million in 2012. For the six months period ended 30 June 2014, the investment property lease income was EUR 4.1 million compared to EUR 4 million for the six months period ended 30 June 2013.

COMPETITION

The Issuer operates in a relatively competitive market for the provision of financing to development projects. The Issuer's principal competitors are national, regional and other international development banks as well as large local commercial banks operating within the region, although the Issuer attempts to avoid direct competition with commercial banks where possible. The Issuer does not, however, believe that it competes with the smaller-sized commercial banks also active in the region as profit maximisation is not the key concern for the Issuer. Such commercial banks tend to provide shorter-term funding, have target industries that are different from those of the Issuer and, as a rule, are less competitive than the Issuer in terms of interest charged. Additionally, other development banks have their own lending criteria and focus and these do not generally overlap with the Issuer's business. In certain cases, the Issuer and other development banks cooperate in the provision of loan facilities to borrowers.

RELEVANT GEOGRAPHIC MARKETS

For the reasons of achieving the Issuer's mission, which is to promote development of economies of the Member States, the Issuer's loan and trading portfolio includes, and is likely to continue to include, concentrations in particular Member States. Accordingly, the economic situation in the Member States affects the financial conditions and prospects of the Group. This section of the Offering Circular sets out certain high level information about the macroeconomic situation in the Group's relevant geographic markets.

Russian Federation

The Russian economy has witnessed a dramatic boom in the 2000ies based on a surging commodity prices and spare capacities. As a result, it became the sixth largest in the world by purchasing power parity. However, the sharp drop in

GDP during the financial crisis in 2009 by 7.8% showed the high vulnerability of the Russian economy to external shocks and its overly high dependency on volatile commodity prices. Resurging oil prices has been a major factor of the recovery since 2010, while low investment/weak business climate, low spare labour force and lacking free capacities have hampered growth rates to return to pre-crisis levels. Even before the current geopolitical turbulences between the West and Russia, the Russian economy has substantially cooled down, as growth rates in 2012 fell to 3.4% and in 2013 to 1.3%. The current stand-off with the West and economic sanctions from the West on Russia has led to further negative developments including higher capital outflow, weaker currency and negative investment dynamics in H1 2014. Growth has slowed down further to slightly below 1 % yoy in H1 2014. Additional sanctions pose a downside risk to further economic development, while the main scenario foresees stagnation in 2014 and barely positive economic growth in 2015. The Russian currency suffers from the geopolitical situation, thus a cooling down of tensions will bring temporary upsides. Russia is rated BBB- with a negative outlook by S&P, Baa1 by Moody's and BBB with a negative outlook by Fitch.

Slovak Republic

The Slovak economy remains among the best performing European economies. Decent economic indicators for Slovakia provide enough reasons to expect GDP growth at 2.7% (2014) and 3% (2015). Moreover, GDP growth in Slovakia is based on solid domestic demand, fuelled by decent real wage and employment growth. Consumer inflation reached a historical low in April 2014 with a temporary drop of -0.2% yoy. The main reasons for such an unusually low level of inflation decrease in energy prices over the last 12-18 months.

Consolidation of public finance has pursued in accordance with the medium-term plan. Budget deficit has decreased below the 3% EU guidance in 2013 (2.77% of GDP) and Slovakia was able to exit the EU Excessive Deficit Procedure. Nevertheless, public debt surpassed an important threshold of the national "Debt Brake" (55% of GDP). Slovakia receives high credit ratings from major rating agencies which puts this country at the top of the rating ladder among comparable CEE countries. Slovak sovereign rating stands at A/A2/A+ from S&P, Moody's and Fitch respectively while in 2014 S&P appointed a positive outlook on Slovakia following the government progress on fiscal consolidation, comparatively strong debt metrics and stout adherence by the government to the law on public debt. In this regard Slovakia remains the third highest rated CEE sovereign after the Czech Republic and Estonia (the latter two rated AA-/A1/A+).

Mongolia

The Mongolian economy is expected to grow by 12.9% yoy this year and 7.7% yoy in 2015, buoyed by the start of production at the Oyu Tolgoi (OT) copper and gold mine. Non-mineral GDP growth will be a projected 5% yoy in 2014, a slowdown from 11% yoy in 2013. Non-mineral GDP growth depends in part on the pace of Development Bank of Mongolia's (DBM) disbursements for investments in public investment projects and the extent to which the Bank of Mongolia's (BOM) stimulus programs are continued. The inflation rate is projected to stay high with a projected 11% yoy this year and 12% in 2015. In the context of continued strong growth of domestic demand, and notwithstanding the BOM's continued operation of the price stabilization program, the depreciation of the exchange rate is most likely to keep the inflation rate elevated. Some encouraging steps have been taken to tighten fiscal policy in the remainder of 2013 and by basing the 2014 budget on more realistic revenue projections. However, including off-budget spending by the DBM, the overall fiscal deficit in 2014 will likely be 7.4% yoy of GDP. Public debt should stabilize at about 65.8% of GDP this year. Mongolia is rated B+ with a stable outlook by S&P, B2 with a negative outlook by Moody's and B+ with a negative outlook by Fitch.

Romania

Romania joined the European Union in 2007. As in many other countries in the region, external imbalances had been high ahead of the financial crisis of 2008/2009, which required macroeconomic adjustment and IMF/EU support in the aftermath of the crisis. During the recent years, these imbalances were adjusted and structural reforms implemented. Thus, Romania was able to improve its competiveness and export capacity over recent years. After the Euro zone crisis, Romania's GDP increased by 3.5 in 2012, strongly relying on export dynamics. The fiscal budget had been under control with 2.3% of GDP general budget deficit in 2013 and the current account deficit had been low: at 1.1% of GDP. The currency had developed relatively stable during recent years, also with some support by the monetary authorities.

While economic growth had been strong in early 2014, the economy slowed down in H2 2014, which weighs on the forecast for GDP in 2014 being lower than in 2013: at around 2.0% yoy. Direct negative impact stemming from Ukraine-Russia conflict and Western sanctions is limited (low trade and financial links; natural gas consumption being 80- 85% covered by domestic production). Romania is rated BBB- with a stable outlook by S&P, Baa3 with a stable outlook by Moody's and BBB- with a stable outlook by Fitch.

Czech Republic

The Czech Republic has an open economy with strong links in supply chains and direct investments with Western Europe, in particular Germany. In comparison to surrounding economies, the average GDP/head is higher, at around 80% of the euro area average at PPP. However, growth has been adversely affected in recent years by the euro area crisis and an overly tight monetary policy. However, the latter has been discontinued more recently and export demand has picked up, leading to a recovery during 2013. However, given the aforementioned negative effects, GDP in 2009 still showed a small decline of 0.9% in 2013. Monetary policy has been ultra-loose for some time, with key interest rates close to zero and the FX rate weakened by the central bank as a tool of unconventional monetary policy. In 2014, the Czech economy has firmly recovered and inflation has dropped to a new cyclical low. External balances are stronger than in the past, while GDP growth still remains below potential. Because of subdued inflation, exit from the FX intervention regime, which holds the currency weak, is seen not earlier than end of 2015. The Czech Republic is rated AA- with a stable outlook by S&P, A1 with a stable outlook by Moody's and A+ with a stable outlook by Fitch.

Bulgaria

Bulgaria joined the European Union in 2007. This led to some immediate international trade liberalisation, but there was no shock to the economy. The biggest risk to an improvement in domestic demand comes from on-going deflation in the economy. Bulgaria's economy will experience a steady acceleration in growth over the coming years, as orders for manufactured goods pick up and improving labour market conditions drive household spending. In H1 2014 the current and capital account was positive amounting to EUR 591.9 million (1.5% of GDP) against a surplus of EUR 270.4 million (0.7% of GDP) in H1 2013. For a second consecutive quarter, in Q2, the current account was positive, and therefore CAB amounted to EUR 262.4 million in the H1 2014 (0.6% of GDP). This positive balance was two times higher than in H1 2013. However, compared to H1 2013 the trade balance recorded a higher deficit in 2014 (-3.8% of GDP) as exports declined more than imports. The financial account balance recorded a net inflow of EUR 885.6 million in June alone, thus the deficit accumulated for the first six months stood at 1% of GDP, compared with an outflow of 2.5% of GDP for the same period a year earlier. Bulgaria's economy will see growth accelerating in light of higher public spending and elevated export growth. Stronger manufactured goods exports to Europe and the prospect of rising remittance flows following the lifting of travel restrictions in the EU for Bulgarian nationals should support a current account in surplus for the foreseeable future. Real GDP growth includes the following figures in % yoy: in 2012 - 0.6; in 2013 – 0.9; in 2014f – 1.7; in 2015f – 2.0. Nominal GDP includes the following figures of EUR billion: in 2012 – 88.57; in 2013 – 89.99; in 2014f – 92.86; in 2015f – 96.05, according to Eurostat. Bulgaria is rated BBB- with a stable outlook by S&P, Baa2 with a stable outlook by Moody's and BBB- with a stable outlook by Fitch.

Vietnam

Latest data released by the General Statistics office of Vietnam (GSO) showed that real GDP accelerated by 5.6% yoy in Q2 14, slightly faster than the 5% print registered in the Q1 14. There is evidence of improvement of macroeconomic fundamentals in Vietnam, acceleration of foreign direct investment inflows, robust remittances and merchandise trade exports. The Vietnamese government's stance is on prioritising macroeconomic stability over rapid growth, while continuing to underpin the stability of the Vietnamese dong over the coming months. The nominal GDP for 2014 is expected to reach US$ 187.837 billion, with nominal GDP per capita expected to rise to US$ 2,072.580. Real GDP growth includes the following figures in % yoy: in 2012 – 5.2; in 2013 – 5.4; in 2014f – 5.6; in 2015f – 5.7, according to IMF data. Vietnam is rated BB- with a stable outlook by S&P, B1 with a stable outlook by Moody's and B+ with a positive outlook by Fitch.

Cuba

Except for the historic transactions, the impact of which is fully provisioned, the Group has no activities in the Republic of Cuba and has currently no plans for such activities in the near future.

MEMBERS

The members of the Issuer are Russian Federation, Slovak Republic, Czech Republic, Republic of Bulgaria, Romania, Socialist Republic of Vietnam, Republic of Cuba and Mongolia. The Issuer benefits from the high geographical diversification of its Member States. Overall territory of operations is 19.6 million square km with total population of more than 290 million people.

The table shows participations of the Member States in the paid-in capital of the Issuer as of 13 October 2014 (ie after the contribution by Bulgaria of additional EUR 12.4 million in July 2014 and by Vietnam of additional EUR 2.6 million in October 2014):

Member States	***Share in IIB´s paid-in capital***	
	(EUR million)	*%*
Russian Federation	150	55.0
Republic of Bulgaria	42.2	15.5
Czech Republic	30.4	11.1
Slovak Republic	21.5	7.9
Romania	18.5	6.8
Republic of Cuba	5.4	2.0
Socialist Republic of Vietnam	3.7	1.3
Mongolia	1.0	0.4
Total	**272.6**	**100.0**

The Russian Federation is currently the majority shareholder in the Issuer, but that is caused mainly by the fact that Poland and Hungary withdrew from the Issuer in 1999 and 2000 respectively. The Russian Federation itself has declared that it does not intend to maintain majority in the Issuer and the share of the Russian Federation is expected to be diluted if Hungary re-joins the Issuer, as well as with expected additional contributions to the paid-in capital by other Member States. However no assurance can be made that the Russian shareholding will decrease below 50% in the near future.

In view of the current Issuer’s development outburst, certain countries that previously terminated their membership in the Issuer are presently considering the possibility of re-joining. Hungary made an official request to join and this was approved by the 101th Council in May 2014. With previous consent of the Issuer’s Council, the Issuer’s Board was authorized to conduct further negotiations with Hungary and Member States of the Issuer for development of specific conditions for resuming Hungary’s membership with the Issuer and preparing a draft of the respective agreement, memorandum of intent and joint actions between the Issuer and Hungary. Receipt of approvals of the terms and conditions of Hungary joining the Issuer is in the pipeline.

Currently, the Member States of the Issuer may vote at the meetings of the Council and each member country has one vote regardless of the size of its contribution to the Issuer's capital. This rule is however likely to change in result of the proposes governance changes, see section “*Management and governance”* below.

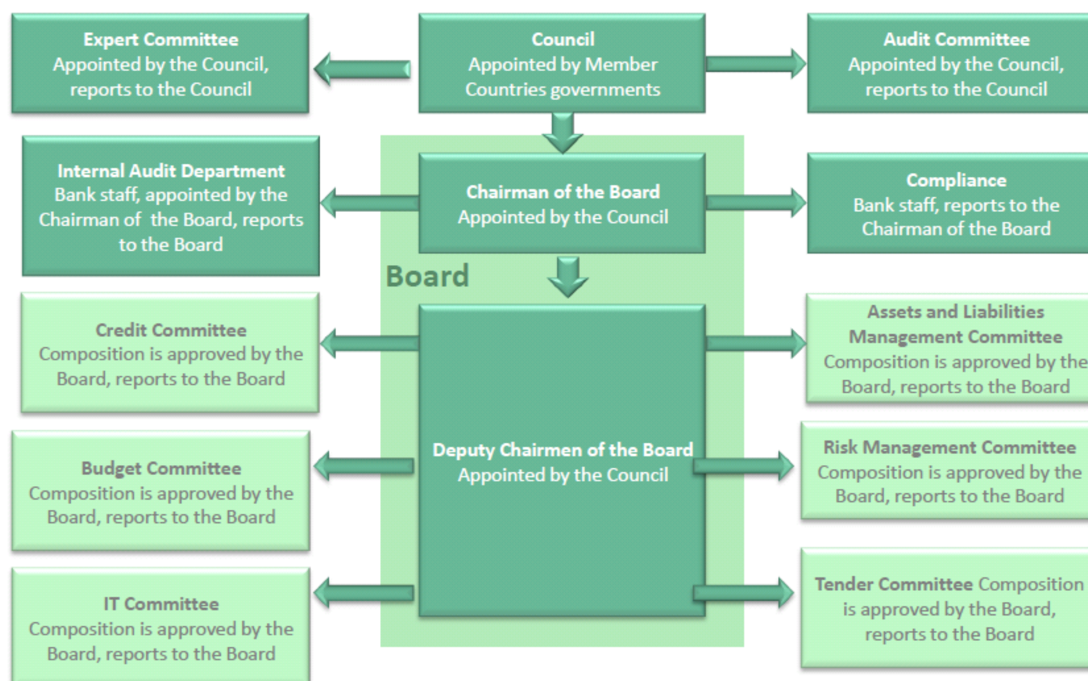
Membership may be obtained by filing an official application with the Council. Acceptance of the new member is made by decision of the Council. Each member country of the Issuer may withdraw from membership upon notice to the

Council at least six months in advance. In this case the Issuer must settle all obligations to the relevant member country. The existing withdrawal procedure sets out details of withdrawal from the Member State's participation in the Issuer's assets and obligations on the basis of the mechanism of "fair value" evaluation applicable at the moment of withdrawal

MANAGEMENT AND GOVERNANCE

General

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



The Issuer is governed by the following main bodies (more on which is stated in the paragraphs below):

- Council, which is the highest authority of the Issuer and supreme management body of the Issuer and carries out the strategic and general management of the Issuer's activities;

- Board, the executive body of the Issuer, which is appointed by the Council; and

- Audit Committee appointed by the Council of representatives of the Member States which audits activities of the Issuer. The Audit Committee is independent of any other body within the Issuer and submits all the reports directly to the Council

In line with practice of other international development banks, the Issuer widely uses specialised collective bodies in its activity. Accordingly, the Issuer has established Credit Committee, Assets and Liabilities Management Committee, Risk Management Committee, Budget Committee, Tender Committee and IT Committee and various tasks groups.

Council

The Council is the highest authority of the Issuer responsible for general management of its activities. The Council holds meeting as frequently as it is required but not less than twice a year. The main tasks of the Council include determining the general strategy and trends of the Issuer's activities on financing, attraction of funds and interest rate policy of the Issuer, commission and other charges under Issuer's operations; approving a list of projects to be financed by the Issuer; approving the main principles of the Issuer's credit policy and risk management, annual report, balance

sheet and allocation of profits of the Issuer, its structure, staff schedule and estimate of administrative expenses; and appointing the Chairman and members of the Board and of the Auditing Committee.

The Council also takes decisions on opening branches and representative offices of the Issuer in the Member States and in other countries, on increase of the capital of the Issuer, amendments of the Statutes of the Issuer and admission of new members.

The Council consists of the authorised representatives appointed by the Governments of the Member States, as a rule in capacity of Deputy Ministers of Finances or Heads of Central Banks. Each Member State has one vote in the Council, which can by casted by a member of the Delegation or a Council member.

- Russian Federation: Head of the Delegation is Dmitriy Pankin, Deputy Minister of Finance of the Russian Federation.

- Slovak Republic: Head of the Delegation is Vazil Hudák, State Secretary of the Ministry of Finance of the Slovak Republic. Council Members are Martina Kobilicová, General Director of the Department of International Relations of the Ministry of Finance of the Slovak Republic and Katarína Kováčová, Director of the Division of International Institutions of the Ministry of Finance of the Slovak Republic.

- Czech Republic: Head of the Delegation is Martin Pros, Deputy Minister of Finance of the Czech Republic. Council Member is Zuzana Kudelová, Director of the Department of International relations the Ministry of Finance of the Czech Republic.

- Republic of Bulgaria: Head of the Delegation is Lyudmila Petkova, Deputy Minister of Finance. Council Member is Denitsa Kirova, Head of the Office of the Minister of Finance

- Romania: Head of the Delegation is Attila Gyorgy, State Secretary of the Ministry of Public Finance. Council Member is Boni Cucu, Department General Director of the Ministry of Public Finance of Romania.

- Socialist Republic of Vietnam: Head of the Delegation is Nguyen Van Binh, President of the State Bank of Vietnam. Council Members are Le Minh Hung, Vice-President of the State Bank of Vietnam, Doan Hoay Anh, Department General Director at the State Bank of Vietnam and Nguyen Vin Hung, Deputy Department General Director at the State Bank of Vietnam.

- Mongolia: Head of the Delegation is Naidansuren Zoljargal, President of Mongolbank. Deputy Head of the Delegation is Dorjgotov Chimed-Yunden, Chief of Administration of Mongolbank. Council Member is Gombo Erdenebaiar, Director of the Mongolbank Department.

- Republic of Cuba: Head of the Delegation is Neysa Delgado Deniz, Vice-President of the Banco Exterior de Cuba. Deputy Head of Delegation is Isaak Gernandes Peres.

Board

Executive body of the Issuer is the Board, which reports to the Council. The Board is headed by the Chairman. Four members of the Board are recommended by the Member States and two – following the resolution of the Council - are appointed on the merit-based approach. Member States which are not represented in the Board have their representatives in the Audit Committee. The Audit Committee reports to the Council directly.

The Board executes operating management of the Issuer's activity in accordance with the strategy, risk limits etc, approved by the Council. The Board supervises the Issuer's activities, oversees the day-to-day administration of the Issuer that is not specifically reserved for the Council and exercises all powers delegated to it by the Council.

As at the date of this Offering Circular, the Board comprises six members. The Board consists of the Chairman and Deputies appointed by the Council as a rule from citizens of member countries for a term of five years. Members of the

Board supervise the department assigned to them and are responsible to the Chairman. At the moment, Republic of Cuba does not have a representation in the Board or the Audit Committee.

An overview of the relevant information about members of the Issuer's Board is given below.

Nikolay Kosov, Russia

Function:	Chairman of the Board, since September 2012
Education, practice, other relevant information:	Mr. Kosov graduated from the Moscow State Institute of Foreign Relations majoring in Foreign Affairs. In 2000, he graduated from the Finance Academy affiliated to the government of Russian Federation majoring in World Economy. He holds a PhD in Economics. 1977-1992 – Assistant, Senior Assistant, Attache, the Third, Second and then the First Secretary, Counselor of the USSR Embassy, counselor at the Ministry of Foreign Affairs of the USSR. 1992-1993 – Assistant to the Vice President of the Russian Federation in the Administration of the President of the Russian Federation. 1993-1998 – First Deputy, then CEO of Automobile Russian Alliance plc., member of the Board of Directors of «AutoVaz» OJSC. 1998-2007 – First Deputy of the Chairman, VNESHECONOMBANK. 2007 – 2012 – member of the Board of the state corporation Bank of the development and external economic activity (VNESHECONOMBANK); First Deputy to the Chairman of VNESHECONOMBANK. Since September 2012 – Chairman of the Board, International Investment Bank. Mr. Kosov is a member of the Board of Directors of GLOBEXBANK OJSC. For his contribution to the development of the financial banking system of the Russian Federation and for his longstanding conscientious work Mr. Kosov was awarded with the 4th degree Order of Merit for the Fatherland, Order of Merit, medals of Order of Merit for the Fatherland (1st and 2nd degree).

Jiří Bobrek, Czech Republic

Function:	Deputy chairman of the Board, since September 2012
Education, practice, other relevant information:	Coordinates the "strategy" block. In 1985 graduated from Plekhanov Moscow Institute of National Economy (Economics and Industry Management). In 1993 received a degree in banking from the University of Economics in Prague. 1985-1988 – economist at JSC «Intergeo Praha». 1988-1990 – construction engineering expert at State Planning Committee of the Czech Republic. Credit officer at Prague branch of JSC «Komercni banka». 1990-1999 – manager at «GE Capital Bank» («Agrobanka Praha» till June 21, 1998) 1999-2001 – business manager at JSC «Kooperativa»; broker at FSC «Respekt»; senior consultant at JSC «SINDAT CS Consulting». 2001-2007 – Financial Analysis Department officer, Ministry of Finance of the Czech Republic. 2007-2010 – Chief economist of the Treasury Department of the International Investment Bank. 2010-2012 – Financial Analysis Department officer, Ministry of Finance of the Czech Republic. Since September 2012 — Deputy Chairman of the Board, International Investment Bank.

Thinh Thi Hong, Vietnam

Function:	Deputy chairman of the Board, since February 2012
Education, practice, other relevant information:	Coordinates the "risks" block. In 1989 graduated with honors from Leningrad University of Economics and Finance (Finance and Credit). Received a Diploma from Saitama University, Japan in 1994. Graduated from the Indiana University, USA, with an MBA degree, in 1998. 1990-1993 and 1994-1995. – HR expert, the State Bank of Vietnam. 1999-2007 – deputy department head, department head, deputy chief operating officer at the State Bank of Vietnam. 2008-2009 – deputy head of the protocol control department, the State Bank of Vietnam. 2010-2012 – Head of International relations department, the State Bank of Vietnam. Since February 2012 — Deputy Chairman of the Board. International Investment Bank.

Demchigjav Molomjamts, Mongolia

Function:	Deputy chairman of the Board, since January 2012
Education, practice, other relevant information:	Coordinates the financial block. In 1975 graduated with honors from Irkutsk Institute of National Economy (Finance and Credit) PhD in Economy 1975-1979 – senior economist of the Foreign Exchange Division of the Ministry of Finance of Mongolia. 1979-1982 – Head of the Foreign Exchange Office of the Ministry of Finance of Mongolia. 1982-1984 – Head of Budget Office of Ministry of Finance of Mongolia. 1984-1990 – Minister of Finance of Mongolia. 1990-1992 – Minister, Head of the Government Office of Mongolia. 1992-1996 – President of the Central Bank of Mongolia. 1996-2012 – Member of the Board, International Bank for Economic Cooperation. Since January 2012 — Deputy Chairman of the Board, International Investment Bank.

Denis Ivanov, Russia

Function:	Deputy chairman of the Board, since February 2013
Education, practice, other relevant information:	Coordinates issues of structured and debt financing, cooperation with financial institutions, treasury. Graduated with honors from the Moscow State Institute of International Relations in 1997 (Specialist in International Relations and Diplomacy), received an MBA degree (specialising in finance) from Cass Business School in London (2011). Holds a Certificate in Corporate Finance from London Business School. 1997-1999 – Attache, Second European Department, Ministry of Foreign Affairs of Russia (Moscow). 1999-2004 – Attache, Third, Second Secretary (PS to the Ambassador) of the Russian Embassy in the UK. (London). 2004-2006 – Head of Representative Offices Division, Vnesheconombank (Moscow). 2006-2013 – Head of Vnesheconombank Representative Office in the UK (London). Since February, 2013 – Deputy Chairman of the Board, International Investment Bank (Moscow).

Vladimir Liventsev, Russia	
Function:	Deputy chairman of the Board, since November 2012
Education, practice, other relevant information:	Coordinates lending and investments. In 1994 graduated with honors from Moscow State Institute of International relations (International Economic relations). 1994-1995 — manager at "Geotrading Ltd. Inc.". 1995-2002 — customer relations manager in Moscow and Central Russia at JSC "Reuters". Among other responsibilities, Vladimir Liventsev was in charge of work with the largest Russian banks providing them with systems of finance information management and risk management. 2002-2003 — Chief commercial officer, Chief sales officer at JSC "Optima Exchange Services". 2003-2004 — Chief business development officer at "Andrew Travel House". 2004-2005 — Advisor to General Director, sales and marketing director at JSC "Interfax". 2005-2012 — Advisor to Chairman of the Board, Assistant Chairman — executive secretary of the Board, Head of the Board Administration of the International Investment Bank. Since November 2012 — Deputy Chairman of the Board. International Investment Bank.

Audit Committee

Auditing of the Issuer's activities including checking of implementation of the Council's decisions, annual reports, cash and property, record, accounts and bookkeeping of the Issuer, its branches and agencies is performed by the Audit Committee appointed by the Council for a period of five years. The Auditing Committee is composed of a Chairman and members. The Chairman and members of the Audit Committee cannot hold any other positions within the Issuer. Audit reports are submitted to the Council of Issuer.

Current voting system

According to the current statutory documents of the Issuer, the voting system is based on the principle of "one country – one vote". On the most of the issues decisions are taken by the Council by the qualified majority of three quarters (ie 6 out of 8 Member States). The key decisions are taken unanimously.

All the key decisions on all managerial levels are taken on a consensual basis and a corporate governance system is based on the principal of transparency, responsibility, openness and deliberateness at decision making. All Member States are capable of influencing the decision making of the Issuer.

Proposed governance changes

The economic and political situation in the Member States has significantly changed since the time of the establishment of the Issuer. Therefore constituent documents of the Issuer should have been updated in accordance with the best practices of other multilateral development banks. Therefore, the Issuer in cooperation with the delegations of the Member States and its legal advisor Allen & Overy Legal Services (the Moscow office of Allen & Overy LLP) has executed a large-scale work on elaborating mutually acceptable approaches to amending the Establishment Agreement and Statutes. The main objective of the revision of the Issuer's statutory documents was to reach amendments that would comply with the best practices of multilateral development banks.

On the Council meeting in May 2014, a protocol amending the Establishment Agreement and its Statutes was signed by Bulgaria, Cuba, Mongolia and the Slovak Republic. As of the date of this Offering Circular, the protocol was signed by

all Member States except for Romania and Czech Republic. Following the signing by all Member States (expected by 1 November 2014), the protocol shall be subject to completion of the required ratification procedures in the Member States. The ratification process is expected to be completed in 2015, however no assurance can be given in this regard.

The changes include:

- Introduction of the Board of Directors. The amendments introduce new three-tier corporate governance system "Board of Governors – Board of Directors – Management Board", which is common in major development banks. The Board of Governors will perform most of the powers of the current Council, however each member will be allotted a number of votes proportionate to the share in paid-in capital of the respective Member State. The Board of Directors shall be the Issuer's collective governing body responsible for the general management of the Issuer's operation Each Member State shall appoint one director to the Board of Directors and each director shall be allotted a number of votes proportionate to the share in paid-in capital of the respective Member State. The Board of Directors and Board of Governors shall be authorized to take decisions provided that at least three quarters of the total number of its directors attend a relevant meeting. Finally, the Management Board shall be the Issuer's executive body and shall consist of the Chairperson and its deputies appointed by the Board of Governors for a five-year term. The Management Board shall be responsible for the day-to-day operations of the Issuer and will perform the functions similar to the present Board. The new governance system is intended to be more effective and facilitate the decision making process.

- New voting system. The amendments propose to reallocate the voting power of the representative of each Member State in the Board of Governors and the director nominated by that Member State to the Board of Directors in proportion to the share of that Member State in the paid-up capital of Issuer. As a result, except for certain strategic decisions which require the unanimous approval of all Member States at the meetings of the Board of Governors (eg decision on amendment to the Establishment Agreement and Statutes and changes in the capital and admission of new members), the resolutions of the Board of Governors and the Board of Directors will be adopted by: (i) at least three quarters of the total votes of the Members States or their directors; and (ii) a simple majority of representatives of the Members States in the Board of Governors and the Board of Directors represented at the respective meeting. This makes the governance structure more transparent and the institution itself more attractive for new members.

REGULATORY CAPITAL

Capital adequacy ratio is the most important financial indicator characterizing credibility of the credit institutions and is estimated as ratio of capital base to risk weighted assets expressed as a percentage. The Issuer is not subject to supervision by any regulator, but approval of the capital adequacy ratio is the sole power of the Council, which consists of the representatives of the Member States.

The Basel Committee on Banking Regulations recommends maintaining the ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 31 December 2013, this minimum level was 8%. Taking into account the Issuer's status as the multilateral development institution and the structure of the Issuer's Member States, the Council of the Issuer set the level of capital adequacy ratio at not less than 25%, ie 17% above the Basel II requirement.

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

In addition to the paid-up capital (ie monetary contributions paid by the Member States), the regulatory capital of the Issuer also includes retained profits, reserves and other adjustments and components in accordance with the Basel Accord (Basel II).

The following table shows the composition of the Issuer's capital position as of 31 December 2012, 31 December 2013 and 30 June 2014.

(EUR million)	**31 December 2012**	**31 December 2013**	**30 June 2014 (unaudited)**
Tier 1 capital	315.1	317.4	336.3
Tier 2 capital	37.7	32.4	31.3
Total regulatory capital	**352.8**	**349.7**	**367.6**
Total risk-weighted assets	**352.1**	**341.9**	**385.7**
Total capital expressed as a percentage of risk-weighted assets, %	**100.2%**	**102.3%**	**95.3%**
Total tier 1 capital expressed as a percentage of risk-weighted assets, %	**89.5%**	**92.8%**	**87.2%**

The Issuer is currently not planning to implement Basel III. However, the capital adequacy target of 25% set by the Council of the Issuer is considerably higher than Basel III requirements.

RISK MANAGEMENT

The Issuer's risk management strategy was approved by the Council in September 2013. The risk management strategy is based on five pillars: risk management system, main principles, risk profile, general limits and risk appetite.

Main principles

The Issuer's risk management policy stems from the following essential principles:

- profitability is the result of the balance struck between the main goal of the Issuer as a development bank and conservative approach to risk management;
- application of the whole range of risk management tools at all levels (the portfolio level in general and the individual transaction level);
- regular improvement of the risk management strategy, review of capital adequacy and maintenance of liquidity;
- adoption of best practice to achieve greater transparency, eg implementation of Basel II (Pillar 1) standard approach in 2013; and
- maintenance of conservative risk policies in all business processes.

Description of the risk management system

The basis of the risk management system is up-to-date and adequate identification of risks, careful assessment of risks and their constant monitoring. Vertical system of risk management is one of the key points of the risk management policy as the risk is controlled at all levels starting from the Council and the Board and going down to the level of a respective personnel.

The concept of "three lines of defence" is adopted and can be described as follows:

- Risk taking: All personnel involved in a specific operation identify, measure and monitor the risk and comply with the risk management policies and instructions;

- Risk management: The Risk Management Department is in charge of preparing and developing tools, methodology, risk measuring, control and monitoring. Its mission is also to calculate capital adequacy and regular allocation of capital for different types of risk;

- Internal control: The Internal Control Department and the Audit Committee provide independent control and assessment of current status of the risk management system.

Risk organization and governance

The risk management system is based on the principle of division of responsibilities for key decisions at all levels of the management of the Issuer, so that no key decision is made by a single body or committee within the Issuer and the principle of "four eyes" is preserved.

The Council, the Board, the Risk Management Committee, the Credit Committee, the Asset Liability Committee, the Risk Management Department, the Internal Audit Department and the Audit Committee and the other departments are responsible for managing the risks faced by the Issuer:

	Main responsibilities
Council	• Defining and approving Risk Management Strategy (risk management system, risk profile, risk-appetite, general risk limits)
Board	• Defining and approving overall risk processes (risk identification, risk measurement, risk mitigation, risk monitoring, risk management policies, etc.) • Overall organization of risk management (inc. responsibilities and tasks) • Approving all types of risk limits (credit, market, liquidity)
Risk Management Committee	• Reviewing of risk management system • Methodological guidance • Review and make recommendations on the assessment, management and mitigation of the risks taken by the Bank • Reviewing of all types of risk limits (credit, market, liquidity)
Credit Committee	• Managing the loan portfolio of the Bank, classification of loans and managing of provisions • Reviewing of new credit agreements structure
Asset Liability Committee	• Assets and liabilities management within the established limits; • Liquidity management within the established limits.
Risk Management Department	• Controlling and monitoring credit, market, operational and liquidity risks • Limit control and monitoring • Development of risk policies, procedures and methodologies • Calculation of capital adequacy, liquidity • Counterparties assessment
Internal Audit Department and Audit Committee	• Review of efficiency of risk management framework • Review of risk management processes, tools and organization
Other departments	• Monitoring and control limits • Responsibilities for active operational risk management

Risk management process

The following stages of the risk management process have to take place with every type of the risk:

- Risk identification: Identification of risks at all levels.

- Risk assessment: Risks are evaluated in terms of their causes, the reasons for their occurrence, their negative effects and the probability of their materialization. Possible losses are calculated and taken into account when the decision on acceptance of the particular risk is made and the Monthly Capital Adequacy Ratio is calculated to estimate the aggregate risk of the Issuer.

- Limitation of risk exposure: On the basis of the outcome of the risk assessment stage, the Risk Management Department participates in setting general limits, limits restricting credit, market and liquidity risks approved by the Council and other limits approved by the Board.

- Risk monitoring and control: Regular monitoring of risk indicators and ensuring that the set limits are not exceeded as well as finding the most effective methods of reaction to the identified potential and occurred risks.

- Risk reporting: The Risk Management Department informs the Risk Management Committee, the Credit Committee, the Asset Liability Committee and the Board on a regular basis about the risk level and its possible negative impact.

Risk profile

The risk profile of the Issuer is defined by several key considerations taking into account the management tasks, strategic goals and specific aspects of the Issuer's business including mainly the following:

- The Issuer achieving its main goal as a development bank;

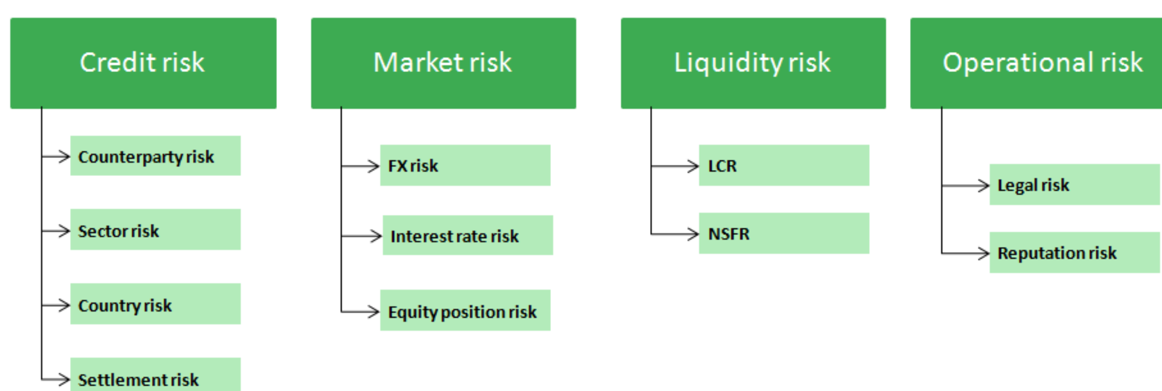
- The Issuer's core activities being financed through its equity capital and raised funds in the international and domestic capital markets.

- The Issuer's focus on acting as a lender in the interbank and syndicated interbank loans for support of small and medium-size businesses and loans for project investment.

- Carrying out proper due diligence to verify legal capacity and Issuer's clients being legal entities with and international bodies.

Risk classification

The Issuer defines the groups of risks, which typically are dependent on different direction of its activities:



Risk appetite

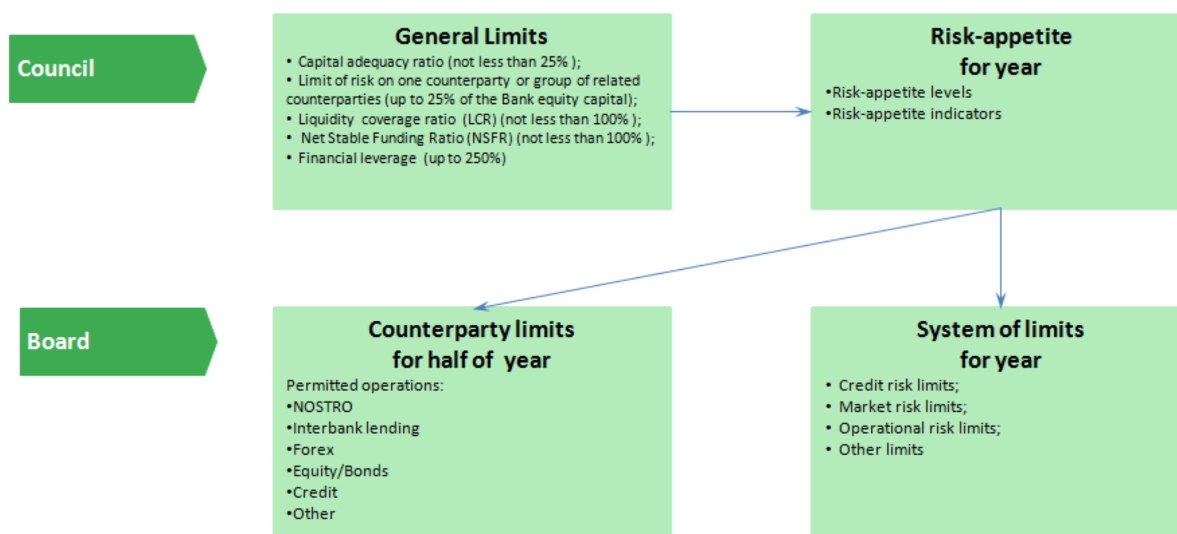
The Council approves the Issuer's risk appetite in accordance with the Risk Management Strategy based on the following:

- Risk appetite represents the total amount of risk assumed by Issuer to achieve its strategic goals and objectives.

- According to Issuer's strategy, the Council establishes the willingness to take risk (i.e. risk appetite) or the amount of own funds and liquidity it is willing to expose to risk in the implementation of the strategy.

- Risk appetite is the determining factor for Issuer's limits, defining the thresholds for key risk management indicators and also for the risks relevant to the Issuer.

System of Limits



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

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

The following table shows key risk parameters and limits and set by the Council of the Issuer:

Indicator	2012	2013	1H 2014	Limit
Capital adequacy ratio *(pre Basel II methodology of the Issuer)*	118.0%	96.0%	-	not less than 25%
Capital adequacy ratio *(Basel II methodology)*	-	102.3%	95.3%	not less than 25%
Current liquidity ratio *(pre Basel II methodology of the Issuer)*	280.6%	-	-	not less than 100%
General liquidity ratio *(pre Basel II methodology of the Issuer)*	201.3%	-	-	not less than 35%
Current liquidity ratio (LCR) *(Basel II methodology)*	-	825.0%	481.5%	not less than 100%
Net Stable Funding Ratio (NSFR) *(Basel II methodology)*	-	118.0%	119.7%	not less than 100%
Financial leverage	3.4%	16.3%	35.0%	up to 250%

Level of capital allocated for risks was set up by the Council in 2013 on the basis of the forecast of paid-up capital in 2014 being EUR 341 million. It was decided that only 75% of the paid-up capital (amounting to EUR 255 million) may be allocated to cover risks in 2014.

According to the forecast, distribution of assets weighted by the risks, the following maximum allocation of capital to cover particular risks were identified: EUR 149 million for credit risk; EUR 83 million for market risk; EUR 23 million for operational and other risks.

As regards the year 2014, the Council approved the "middle level" of risk appetite for credit and market risk, and "low levels" of risk appetite for operational and other risks.

BORROWINGS

As at 30 June 2014, the Issuer had borrowings in the form of long term loans from banks and issued debt securities in the amount of EUR 61 million, compared to no such indebtedness as the end of 2013.

Based on Russian Federation Government Decree No. 732-r of 2 May 2013, the Issuer was recognised as an international financial organisation whose securities are admitted for public placement and circulation in the Russian Federation (Federal Law "On Securities Market").

In spring 2014, the Issuer has registered its first RUB 14 billion bond programme with the Central Bank of Russia. The programme provides for potential drawings in the amounts of RUB 2 billion, RUB 3 billion, RUB 4 billion and RUB 5 billion. The maturity of the issues is 10 years, with the possibility of the put option and semi-annual coupon payments. In April 2014, the Issuer made an inaugural RUB 2 billion bond issue under the programme with 1.5 year put-option, listed on MOEX (Moscow stock exchange). The transaction was managed by Raiffeisenbank (RBI Group), VTB Capital (VTB Group) and Rosbank (Société Générale Group). The coupon was fixed at 9.9% p.a. (spread to OFZ 198 bp), payable semi-annually. The market demand from more than 20 investors exceeded the amount of the issue more than three times. Average effective EUR rate of the attracted funds with regard to cross currency swap is 1.22%. Swap covered cash flow for all payments and the deal was closed on 29 April 2014. The debut issue was included in the lombard list of the Central Bank of Russia, and also in the list of securities accepted as collateral for repurchase agreements. Under the Decree of the Government of the Russian Federation No. 852 dated 23 August 2014, the Issuer was added to the list of international financial institutions whose securities can be invested into with pension savings of the state management Companies (Russian entities responsible for pension funds management), with the payment reserve resources of the state management companies, and with temporary surplus funds of state corporations and state companies.

On 25 April 2014, an unsecured USD 25 million bilateral loan facility was entered into with Rosbank (Société Générale Group). The facility was immediately utilised and fully drawn by the Issuer.

As part of the Issuer's strategy, in order to build its track record as a borrower and issuer on the financial markets in the Member States and also to diversify its sources of funding, the Issuer is contemplating incurring further indebtedness in the form of bond issues or entering into credit facilities (both bilateral and syndicated) in the near future.

The Issuer is not in breach of any of its covenants under the bonds and the loan agreement.

Due to its status of international organisation the Issuer has no recourse to the liquidity facilities of its Member States' central banks. Although the Issuer perceives its liquidity position as sustainable, it is currently in negotiations with the National Bank of Russia on bilateral agreement for provision of additional liquidity in case of unlikely future liquidity constraints. However no assurance can be given as to the outcome of such discussions with the National Bank of Russia or any other central bank of a Member State.

LEGAL AND ARBITRATION PROCEEDINGS

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

MATERIAL CONTRACTS

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

RELATED PARTIES TRANSACTIONS

The Group had no transactions with related parties, except in relation to maintaining current accounts for and payments of employee benefits and compensations to the key management personnel. The expenses in respect of such related parties transactions were EUR 1.2 million in 2013, compared to EUR 0.9 million in 2012 and EUR 0.8 million for the six months period ended 30 June 2014, compared to EUR 0.6 million for the six months period ended 30 June 2013.

TREND INFORMATION

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

STATUTORY AUDITORS

The consolidated financial statements of the Issuer for the years ended 31 December 2013 and 31 December 2012, both prepared in accordance with the IFRS, have been audited by CJSC Ernst & Young Vneshaudit, with its registered office at Sadovnicheskaya Nab., 77, bld.1 , Moscow, 115035, Russia. Based on the audits, CJSC Ernst & Young Vneshaudit issued unqualified opinions.

CJSC Ernst & Young Vneshaudit is registered in the State Register of Legal Entities on 16 September 2002, State Registration Number 1027739199333. Ernst & Young Vneshaudit is a member of Non Profit Partnership "Russian Audit Chamber" (**NP APR**). Ernst & Young Vneshaudit is registered in the register of auditors and audit organizations of NP APR (Non-profit partnership Audit Chamber of Russia), number 3027, and also included in the control copy of the register of auditors and audit organizations, main registration number 10301017410.

TERMS AND CONDITIONS OF THE BONDS

(in Slovak: *emisné podmienky dlhopisov*)

Bonds with fixed interest rate due 21 October 2019 in maximum principal amount of 50,000,000 EUR, ISIN: SK4120010307 séria 01 (the **Bonds**) are issued by the International Investment Bank, an international organisation organised and existing under public international law, created by the Agreement on the Establishment of the International Investment Bank dated 10 July 1970 and registered with the Secretariat of the United Nations, with its official seat at 7, Masha Poryvaeva Street, 107 078 Moscow, Russian Federation shall be governed by the following terms and conditions (the **Conditions**):

1. CLASS, NAME, FORM AND PRINCIPAL AMOUNT

1.1 The class of the security is: bond. The name of the Bond is: "Dlhopis IIB 2019".

1.2 The maximum principal amount of the Bonds under these Conditions is EUR 50,000,000.

1.3 The Bonds are book-entry (in Slovak: *zaknihované*) securities registered in Centrálny depozitár cenných papierov SR, a.s., with its registered seat at ul. 29 augusta 1/A, 814 08 Bratislava, Slovak Republic (**CDCP**).

1.4 The Bonds are issued in euros in the bearer form (in Slovak: *cenné papiere na doručiteľa*), with the nominal value of each Bond being EUR 10,000 (the **Nominal Value**) in the number of maximum 5,000 Bonds.

1.5 The date of issue of the Bonds is 21 October 2014 (the **Issue Date**).

1.6 The Bonds are issued under the laws of the Slovak Republic, in particular the Act No. 530/1990 Coll. on bonds as amended (the **Act on Bonds**) and Act No. 566/20014 Coll. on securities and investment services as amended (the **Securities Act**).

2. OFFER AND APPLICATION FOR ADMISSION TO TRADING

2.1 The Issuer is a public international organisation the members of which are inter alia the following EU Member States: the Slovak Republic, the Czech Republic, Romania and Bulgaria. Consequently, the Issuer is exempt from the requirements to draw up and publish a prospectus in accordance with Section 125h(1) of the Securities Act.

2.2 The Bonds in the first tranche are not issued on the basis of a public offer under the Securities Act and shall be offered mainly to professional investors in the Slovak Republic.

2.3 The Issuer shall apply for admission of the Bonds to trading on the regulated free market (in Slovak: *regulovaný voľný trh*) of the Bratislava Stock Exchange. The Issuer may apply for admission of the Bonds to trading on other regulated market in the European Union.

3. FURTHER ISSUES

The Issuer may at any time until the Final Maturity Date issue further tranches of the Bonds under these Conditions up to the maximum principal amount specified in paragraph 1.1. The Issuer may sell any number of such subsequently issued Bonds by any means the Issuer may deem fit in its sole discretion. Issue price of the Bonds shall be determined by the Issuer from time to time whenever any such future tranche of the Bonds is sold.

4. BONDHOLDERS

The Bondholders will be the persons registered as owners of the Bonds (i) on the owner's account (in Slovak: *účet majiteľa*) maintained by CDCP or by a member of CDCP or (ii) on the internal account of a custodian for

which CDCP maintains a custody account (in Slovak: *držiteľský účet*) (each such account referred to as the **Relevant Account** and each such person as the **Bondholder**). If some of the Bonds are registered in a custody account, the Issuer reserves the right to rely on the authority of each custodian to fully represent (directly or indirectly) the Bondholder and perform vis-à-vis the Issuer and to the account of the Bondholder all legal acts (either in the Bondholder's name or in its own name) associated in the Bonds as if this person were their owner. Unless the laws or a decision of the court delivered to the Issuer provides otherwise, the Issuer and the Administrator (as defined below) will deem every Bondholder the authorised owner in all respects and make the payments under this Prospectus to that Bondholder.

5. OBLIGATION OF THE ISSUER

The Issuer declares that it is obliged to pay the Nominal Value and interest on each of the Bond to each Bondholder who is the owner of such Bond in accordance with these Conditions.

6. TRANSFERABILITY AND RIGTHS ATTACHED TO THE BONDS

6.1 Transferability of the Bonds and the rights attached to the Bonds are not restricted, except for any general statutory restrictions applicable to creditor rights in general.

6.2 A Bondholder is entitled to be paid the Nominal Value of the Bonds and relevant interest in accordance with these Conditions.

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

7. STATUS OF THE ISSUER'S OBLIGATIONS

7.1 The obligations under the Bonds will constitute direct, unsecured, unconditional and unsubordinated obligations of the Issuer ranking *pari passu* among themselves and as to the order of their satisfaction at least *pari passu* to all other current and future direct, unsecured, unconditional and unsubordinated obligations of the Issuer, except for those obligations of the Issuer so identified by the mandatory provisions of law.

7.2 The Issuer undertakes to treat all the Bondholders equally.

8. NEGATIVE PLEDGE

8.1 So long as any Bond remains outstanding, the Issuer shall not, and the Issuer shall procure that none of its Material Subsidiaries will, create or permit to subsist any Security Interest, except for any Permitted Security Interest, upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Financial Indebtedness or Guarantee of Financial Indebtedness without at the same time or prior thereto securing the Bonds equally and rateably therewith.

8.2 For the purposes of these Conditions:

Financial Indebtedness means an indebtedness for or in respect of (i) moneys borrowed and debit balances at banks; (ii) any acceptance credit (including any dematerialised equivalent); (iii) any bond, note, debenture, loan stock or other similar instrument; (iv) any finance lease; (v) receivables sold or discounted (other than any receivables to the extent they are sold or discounted on a non-recourse basis); (vi) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing and (vii) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution.

Guarantee means in relation to any Financial Indebtedness of any person, any obligation to pay such Financial Indebtedness including (without limitation): (a) any obligation to purchase such Financial Indebtedness; (b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Financial Indebtedness; (c) any indemnity against

the consequences of a default in the payment of such Financial Indebtedness; and (d) any other agreement to be responsible for such Financial Indebtedness;

Material Subsidiary means, as of any date, an entity (i) whose affairs and policies are controlled by the Issuer, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body or otherwise; or (ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the Issuer and (iii) whose consolidated (or in the case of an entity that does not itself have any subsidiaries, unconsolidated) total assets represent 10 % or more of the total book value of all assets of the Issuer's group as reflected in the Issuer's most recent consolidated annual audited financial statements.

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

Security Interest means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

9. UNDERTAKINGS IN RESPECT OF USE OF PROCEEDS

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

9.2 For the purposes of these Conditions:

Restricted Party means any person or entity which is:

(a) listed on a Sanctions List, or a person acting on behalf of such a person; or

(b) the subject of any Sanctions.

Sanctions mean any country- or territory-wide trade, economic or financial sanctions laws, regulations, embargoes or restrictive measures administered, enacted or enforced by a Sanctions Authority.

Sanctions List is the Specially Designated Nationals and Blocked Persons list maintained by Office of Foreign Assets Control of the US Department of the Treasury (**OFAC**), the Consolidated List of Financial Sanctions Targets and the Investment Ban List maintained by Her Majesty's Treasury, or any similar list maintained by, or public announcement of a Sanctions designation made by (i) the Security Council of the United Nations; (ii) the United States of America; (iii) the European Union; (iv) the member states of the European Union and (v) the governments and official institutions or agencies of any of paragraphs (i) to (iv) (including OFAC, the US Department of State and Her Majesty's Treasury), each as amended, supplemented or substituted from time to time.

Sanctions Authority means each entity under (i) to (v) of the definition of the Sanction List specified above.

10. INTEREST ON THE BONDS

10.1 Interest Rate and Interest Period

(a) The Bonds bear a fixed interest rate of 3.5 % p.a. (the **Interest Rate**).

(b) The interest income will accrue from the first day of each Interest Period until the last day of the Interest Period. The interest for each Interest Period will be paid in annual arrears, always on 21 October of each year (the **Interest Payment Date**). The first Interest Payment Date is 21 October 2015.

For the purposes of these Conditions, **Interest Period** means the period beginning on the Issue Date (inclusive) and ending on the first Interest Payment Date (exclusive) and each immediately following twelve-month period beginning on the Interest Payment Date (inclusive) and ending on the next following Interest Payment Date (exclusive), until the Bonds Maturity Date.

10.2 Interest calculation convention

In order to calculate the interest income attributable to the Bonds for a period of less than 1 (one) year, the "Standard 30E/360" interest calculation convention will be used (i.e. for the purposes of calculation of interest income, a year is deemed to have 360 (three hundred and sixty) days divided into 12 (twelve) months of 30 (thirty) calendar days, and for incomplete month, the actual number of days will be used.

10.3 Determination of the interest income

The amount of interest income attributable to one Bond for each period of 1 (one) current year will be determined as the nominal value of the Bond multiplied by the applicable interest rate (expressed by a decimal number). The amount of interest income attributable to one Bond for each period of less than 1 (one) current year will be determined as the nominal value of the Bond multiplied by the applicable interest rate (expressed by a decimal number) multiplied by the relevant day fraction calculated in accordance with the interest calculation convention specified in paragraph 10.2 above, with the resulting amount rounded to 2 (two) decimal points pursuant to mathematical rules.

The calculation of yield on the Bonds by the Administrator acting as calculation agent will be final and binding on all Bondholders (save for manifest error).

10.4 End of interest accruing

The Bonds will cease to bear interest on the Maturity Date (the **Maturity Date** means Final Maturity Date or Early Maturity Date, each as defined below, as appropriate), unless at the moment of all conditions and requirements being satisfied, the repaid outstanding amount was retained or rejected by the Issuer. In such a case, the interest income will accrue at the above interest rate until the Bondholders are paid all amounts payable as of that day in accordance with these Conditions.

11. MATURITY OF THE BONDS AND REPURCHASE

11.1 Final repayment

If the Bonds do not become early payable under these Conditions, the Bond Nominal Value is payable as a bullet payment on 21 October 2019 (the **Final Maturity Date**).

11.2 No redemption at the option of the Issuer

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

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

The Issuer may at any time before the Maturity Date purchase any Bonds at the secondary market for any market price. The Bonds purchased by the Issuer shall not cease to exist and can be resold by the Issuer, unless the Issuer decides to cancel any such purchased Bonds. The rights and obligations under the Bonds purchased by the Issuer shall cease to exist due to their amalgamation in a single person at the earlier of: (a) cancellation by the Issuer and (b) the Final Maturity Date.

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

12.1 Currency

The Issuer undertakes to pay the interest on the Bonds and repay the Nominal Value of the Bonds in euro. All payments under the Bonds to the Bondholders shall be made in accordance with these Conditions and applicable tax and other laws of the Slovak Republic as valid and effective at the time of making of the payment.

12.2 Payment dates

All payments under the Bonds will be paid on the dates specified in these Conditions (each such date a **Payment Date**) through the Administrator at the Specified Office. If the Payment Date falls on a day other than a Business Day, the Issuer must pay the payable amounts on the next following Business Day without being obliged to pay any default interest or any other additional amounts.

For the purposes of these Conditions, the **Business Day** means a day other than Saturday, Sunday and public holiday in the Slovak Republic.

12.3 Determination of the right to receive payments

All payments under the Bonds will be paid to those persons who are Bondholders registered at the Relevant Accounts at 23:59 on the relevant Payment Cut-off Date (as defined below) (the **Eligible Recipient**).

For the purposes of these Conditions, the **Payment Cut-off Date** means the date thirty (30) calendar days before the relevant Payment Date.

For the purposes of determination of the Eligible Recipient, neither the Issuer nor the Administrator will take into consideration any transfers of the Bonds after the Payment Cut-off Date until the relevant Payment Date.

12.4 Making of payments

(a) The Administrator will make all payments under the Bonds to the Eligible Recipients by wire transfer to their bank accounts specified in the instruction delivered by the relevant Eligible Recipient to the Administrator no later than five (5) Business Days before the Payment Date. The instruction must be in the form of a signed written statement (with the signature/signatures authenticated or the signature verified by the authorised member of the bank's staff) containing information about the Eligible Recipient's account sufficient for the Administrator to make the payment. In the case of legal persons, the instruction will be accompanied by the original or a copy of the valid extract from the Commercial Register or other similar register in which the Eligible Recipient is registered, with the correctness of information shown in this extract from the Commercial Register or other similar register validated by an employee of the Administrator as of the Payment Date (this instruction together with its supporting documents the **Instruction**). The Instruction must be in Slovak or English language and in the form and substance satisfying the reasonable requirements of the Administrator; the Administrator may demand sufficiently satisfactory evidence of identity and authorisation of the person who signed the Instruction. This evidence must be delivered to the Administrator also no later than five (5) Business Days before the Payment Date. The Administrator may in particular demand (i) presentation of the

power of attorney if the Eligible Recipient is represented by an agent, and (ii) additional confirmation of the Instruction by the Eligible Recipient.

(b) The obligation to pay any amount under the Bonds is deemed to be satisfied properly and on time if the relevant amount is transferred to the Eligible Recipient in accordance with its Instruction satisfying the requirements under paragraph (A) above and if the amount is credited to the bank account of the Eligible Recipient on or before the relevant due date.

(c) Neither the Issuer nor the Administrator is liable for any delay in paying any outstanding amount due to (i) Eligible Recipient's failure to deliver proper Instruction or other documents or information under these Conditions on time, (ii) because the Instruction, documents or information was incomplete, incorrect or untrue, or (iii) because the delay was caused by circumstances outside the control of the Issuer or the Administrator. In these cases, the Eligible Recipient does not become entitled to any extra payment or interest for the delay of that payment.

12.5 Gross-up

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

(a) held by or on behalf of a Bondholder which is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Bond; or

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, this Directive.

13. EARLY REPAYMENT OF THE BONDS ON DEFAULT

13.1 Events of Default

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

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

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

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

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

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

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

provided that no event in this paragraph (c) shall constitute an Event of Default unless the amount of Financial Indebtedness and/or the amount payable under any Guarantee, individually or when aggregated (without duplication) with any other Financial Indebtedness or amount payable under any Guarantee as a result of any other event specified in this paragraph (c) which has occurred and is continuing, exceeds EUR 5,000,000 (or its equivalent in any other currency or currencies);

(d) **Imposition of Sanctions.** The Issuer becomes a Restricted Party (as defined above).

(e) **Inability to pay debts.** (i) the Issuer or any of its Material Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator is appointed (or an application for any such appointment is made by or with the consent of the Issuer) in respect of the Issuer or any of its Material Subsidiaries, (iii) the Issuer or any of its Material Subsidiaries takes any action for a readjustment or deferment of its material obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of its material Indebtedness or any Guarantee of any Indebtedness given by it or (iv) the Issuer or any of its Material Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business (otherwise than, in the case of a Material Subsidiary of the Issuer, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or (v) an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or any of its Material Subsidiaries (otherwise than, in the case of a Material Subsidiary of the Issuer, for the purposes of or pursuant to an amalgamation, consolidation reorganisation or restructuring whilst solvent);

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

(g) **Ceased trading.** The Bonds cease to be admitted to trading on a regulated market in the European Union;

then each Bondholder will have the right to declare all Bonds (but not some only) held by that Bondholder immediately due and payable and require the Issuer to pay Nominal Value of each Bond held by that Bondholder together with any accrued interest.

13.2 Duty to inform

The Issuer must without undue delay notify the Bondholders and the Administrator of the occurrence of any Event of Default. Any such notification must specify the nature of the Event of Default and the circumstances giving rise to it and must be delivered in accordance with paragraph 18.

14. PUT OPTION

14.1 If any of the following events occurs and is continuing (each of them a **Put Option Event**):

(a) **Change in the membership of the Issuer**. The Slovak Republic ceases to be the member state of the Issuer;

(b) **Rating Downgrade**. A Rating Downgrade occurs with respect to the Issuer or the Bonds. The Rating Downgrade shall be deemed to have occurred if (i) the ratings previously assigned to the Bonds or the

Issuer by all Rating Agencies are (A) withdrawn or (B) changed from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or (ii) all Rating Agencies assign to the Bonds or the Issuer a rating which is a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse). For the purposes of these Conditions, **Rating Agency** means any of the following: Fitch Ratings Limited, Moody's Investors Service Limited or Standard & Poor's Credit Match Services Europe Limited and their respective successors or affiliates;

14.2 then each Bondholder registered with CDCP at the end of the business hours of CDCP on the day of the date of publication of the Bondholders Put Option Notice (as defined below) will have the right (the **Put Option**) to require the Issuer to repurchase each Bond (but not some only) held by that Bondholder at the Nominal Value together with an amount equal to accrued interest (if any) up to but excluding the Early Redemption Date (the sum of such amounts being the **Early Redemption Amount**) in accordance with the procedure set out in this paragraph 14 (**Early Redemption**). The Issuer must within 7 Business Days after the occurrence of any Put Option Event notify the Bondholders by way of publication of a notice on its website (**Bondholders Put Option Notice**). Any such notice must specify the following:

(a) date of occurrence of the Put Option Event, nature of the Put Option Event and circumstances leading to its occurrence and the date of publication of the Bondholders Put Option Notice;

(b) date by which each Bondholder must deliver to the Administrator a duly signed request regarding exercising its Put Option;

(c) date on which the Early Redemption shall take place, which may not be later than 13 Business Days after the lapse of the period specified in paragraph 14.3 below (the **Early Redemption Date**);

(d) specification of the securities account of the Issuer with the Administrator where the repurchased Bonds will be transferred on the Early Redemption Date (the **Specified Account**); and

(e) explicit warning to each Bondholder that instructions must be given to relevant accountholder or custodian to procure for transfer of the Bonds to the Specified Account on a delivery-versus-payment basis on the Early Redemption Date, otherwise no Early Redemption money will be received.

For the purposes of this paragraph 14 only, **Business Day** shall mean a day (other than a Saturday or a Sunday) on which banks are open for general business in Bratislava and Moscow.

14.3 Within 20 Business Days after the Bondholders Put Option Notice is published, each Bondholder shall have the right to exercise the Put Option by delivery of a duly signed request to the Administrator. The request must specify the number of the Bonds to be repurchased by the Issuer and confirmation that instructions have been given to relevant accountholder or custodian to procure for transfer of the Bonds on a delivery-versus-payment basis to the Specified Account on the Early Redemption Date.

14.4 On the Early Redemption Date, the Issuer shall pay the Redemption Amount to each Bondholder who duly exercised the Put Option against delivery of the Bonds held by that Bondholder to the Specified Account. Paragraph 12 shall apply to making payments on the Early Redemption Date accordingly. The Bonds purchased by the Issuer under this paragraph 14 shall not cease to exist and can be resold by the Issuer, unless the Issuer decides to cancel any such purchased Bonds. The rights and obligations under the Bonds purchased by the Issuer shall cease to exist due to their amalgamation in a single person at the earlier of: (a) cancellation by the Issuer and (b) the Final Maturity Date.

15. PRESCRIPTION

The rights under the Bonds are subject to prescription period (in Slovak: *premlčacia doba*) of ten (10) years from their due date.

16. ADMINISTRATOR AND THE SPECIFIED OFFICE

16.1 Tatra banka, a.s. with registered seat Hodžovo námestie 3, 811 06 Bratislava, IČO: 00 686 930, registered with the commercial register of District Court Bratislava I, section: Sa, insert: 71/B is appointed as the Administrator for the Bonds. The Administrator shall provide for the Issuer the paying agent services associated with payments under the Bonds under the Administration Agreement.

16.2 Specified Office and the Administrator's payment place (the **Specified Office**) are at the following address:

Tatra banka a.s.
Hodžovo námestie 3
811 06 Bratislava
Slovak Republic

16.3 The Issuer may appoint any other or additional Slovak bank or Slovak branch of a foreign bank to perform the services of Administrator. The Issuer may also determine other or additional Specified Office, provided that at least one Specified Office shall be in the Slovak Republic. The changes of the Specified Office constitute changes of the payment place under Section 3(6) of the Act on Bonds, which do not require consent of the Bondholders. Any such change shall be notified to the Bondholders in accordance with paragraph 18.1 below.

16.4 The Issuer may not dispose with the funds paid by the Issuer to the account held by the Administrator to be used to pay the interest income on the Bonds and the Nominal Value (except for the interest on these funds). These funds are not owned by the Administrator; the Administrator must record them separately from its assets and use them only for payment to the Bondholders. The Administrator acts in connection with performance of its obligations as agent of the Issuer and in this connection has no legal relationship with the Bondholders. The Administrator even has no legal relationship with the Bondholders under the Conditions.

16.5 The Administrator shall also act as (a) the Listing Agent in connection with the admission of the Bonds to the relevant regulated market and (b) the Calculation Agent who will calculate the payments due to the Bondholders in respect of each Payment Date. The Issuer will apply, through the Listing Agent, for admission of the Bonds to the relevant regulated market of the BSSE. The Issuer may appoint any other Slovak bank or Slovak branch of a foreign bank to act as the Listing Agent or the Calculation Agent. Because these persons have no obligations vis-à-vis the Bondholders, such an appointment does not constitute a change of the Conditions; however, the Issuer will disclose it by publishing a notice to the Bondholders. Each Listing Agent and Calculation Agent acts in connection with performance of its obligations as agent of the Issuer and in this connection has no legal relationship with the Bondholders. Each Listing Agent and Calculation Agent even has no legal relationship with the Bondholders under the Conditions.

16.6 A copy of the Administration Agreement shall be available for inspection by the Bondholders in the Specified Office during normal business hours.

17. CHANGES AND WAIVERS

17.1 The Issuer may change the Conditions only in accordance with Section 3(6) of the Act on Bonds.

17.2 The Issuer and the Administrator may, without the consent of the Bondholders, agree on (i) any change of any provision of the Administration Agreement if the change is solely formal, ancillary or of a technical nature or performed in order to correct an apparent error or required due to changes in laws, and (ii) any other change and waiver due to any breach of any provision of the Administration Agreement that in the reasonable opinion of the Issuer and the Administrator will not harm the Bondholders.

18. NOTICES

18.1 Any notice to the Bondholders in connection with the Bonds will be published in English language (unless Slovak language is required under law) on the Issuer's web site http://www.iibbank.com/en/. If a law or

regulation requires its publication by other means, the notice will be published also by those other means. If a notice is published by several means, the publication date of such notice will be deemed to be the date of its first publication. The date of publication is also deemed to be the date of delivery of the notice to the Bondholders.

18.2 Any notice to the Issuer in connection with the Bonds must be delivered in writing to the address of the Specified Office of the Administrator.

18.3 Any notice to the Administrator must be delivered in writing to the address of the Specified Office of the Administrator. If the notice is addressed to the Administrator in the capacity of the Paying Agent (eg Instructions and other communication with regard to the payments), the notice must be marked to the attention of „oddelenie BO kapitálového trhu“. If the notice is addressed to the Administrator in connection with any other matter, the notice must by marked to the attention of „odbor Capital Markets“.

19. GOVERNING LAW, LANGUAGES AND DISPUTES

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

19.2 These Conditions are prepared in English language which shall be binding and may be translated into any other languages.

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

20. WAIVER OF IMMUNITIES

To the extent the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, enforcement proceedings or attachment or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably and expressly waives any such immunity.

21. REPRESENTATION OF THE ISSUER

The Issuer represents to each Bondholder that all information in these Conditions is complete, true and in accordance with the requirements as to the contents of the Conditions under Section 3(1) and (2) of the Act on Bonds.

TAXATION

The following is a general description of certain tax considerations relating to the Bonds. It does not purport to be a complete analysis of all tax considerations relating to the Bonds, whether in those countries or elsewhere. Prospective purchasers of Bonds should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Bonds and receiving payments of interest, principal and/or other amounts under the Bonds and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

THE SLOVAK REPUBLIC

This taxation summary solely addresses the principal Slovak tax consequences of the acquisition, the ownership and disposition of the Bonds issued by the Issuer after the date hereof held by a holder of the Bonds. It does not consider every aspect of taxation that may be relevant to a particular holder of Bonds under special circumstances or who is subject to special treatment under applicable law. Where in this summary English terms and expressions are used to refer to Slovak concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Slovak concepts under Slovak tax law.

This summary is based on the tax laws of the Slovak Republic as they are in force and in effect on the date of this Offering Circular and their prevailing interpretations available on or before this date. All of the foregoing is subject to changes in law, which could apply retroactively and therefore affect the continued validity of this summary, which will not be updated to reflect any such change. This summary assumes that each transaction with respect to the Bonds is at arm’s length.

Income Tax

Withholding Tax

Interest income on the Bonds is currently subject to Slovak withholding tax of 19% only if received by individuals who are considered to be the Slovak tax residents. The tax is withheld by the paying agent upon payment of the interest.

Slovak Individuals

Interest income on the Bonds received by an individual who is considered to be a Slovak tax resident (**Slovak Individual**) is subject to Slovak withholding tax of 19%. The tax withheld is considered final and the individual does not have to prepare his personal income tax return in this respect.

The capital gain realised upon redemption of the Bonds (as the difference between nominal value of the Bond and its issue price), as well as the gain from sale of the Bonds (i.e. the difference between (i) the sale price and (ii) the acquisition price of the Bonds, increased by related fees for trading in the capital market and costs connected with the sale) realized by a Slovak Individual is subject to personal income tax and shall be included in the personal income tax base.

The personal income of the Slovak individual is subject to progressive taxation with the rates ranging from 19 % to 25 %. Depending on the Slovak Individual’s overall tax position, he/she may be entitled to a tax exemption up to the amount of €500 from income realized from the sale of Bonds in one tax period. In general, any loss realized by a Slovak Individual is tax non-deductible with some specific exemptions defined in the Slovak tax law.

Slovak Corporations

A corporation which is treated as a Slovak tax resident (**Slovak Business**) is subject to corporate income tax on interest income received on the Bonds and on capital gain (i.e. the difference between the sale price and the accounting value of the Bonds) realized from the sale of the Bonds. In general, the income derived from the Bonds would be included in the

tax base of a Slovak Business and taxed at a corporate income tax rate of 22 % for the 2014 tax year. Any loss incurred by the corporation upon the sale of the Bonds should generally be tax non-deductible with some exceptions, for example (i) the loss of up to the amount of the income tfor

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Other applicable taxes

No Slovak stamp duty, registration, transfer or similar taxes will be payable in connection with the acquisition, ownership, sale or disposal of the Bonds by the Slovak tax residents.

EU Savings Tax Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each European Union member state (the **EU Member State**) is required to provide to the tax authorities of another EU Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other EU Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 %. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. Luxembourg has announced that it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payments of interest (or similar income) as from this date.

A number of non-EU countries and certain dependent or associated territories of certain EU Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in an EU Member State. In addition, the EU Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a EU Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

Foreign Account Tax Compliance Act

Under Sections 1471-1474 of the United States Internal Revenue Code of 1986 (commonly referred to as **FATCA**), dividend equivalent payments on, and payments of gross proceeds from the disposition of or in connection with the Bonds made to financial institutions serving as intermediaries for such U.S.-related payments may be subject to a 30% withholding tax imposed on "withholdable payments", unless the applicable financial institution complies with certain certification, information reporting (disclosure obligation with regard to U.S.-related investors) and other specified requirements. The application of FATCA in relation to payments under the Bonds may be influenced by an intergovernmental agreement (**IGA**) entered into between the United States and the jurisdiction of the financial institution involved in the payments under the Bonds.

The Slovak Republic and the United States have reached an IGA in substance and the Slovak Republic has consented to disclose such status. In accordance with this status, the regime applicable to jurisdictions that have signed respective IGAs extends to it and the Slovak Republic is treated as if an IGA has been in effect. As of 11 April 2014, the Slovak Republic is therefore considered a partner jurisdiction and has an obligation to have an IGA signed by 31 December 2014. In the opposite case it will be removed from the list of partner jurisdictions.

The proposed financial transactions tax (FTT)

The European Commission has published a proposal for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and the Slovak Republic (the participating EU Member States).

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in the Bonds (including secondary market transactions) in certain circumstances. Under current proposals the FTT could apply in certain circumstances to persons both within and outside of the participating EU Member States. Generally, it would apply to certain dealings in the Bonds where at least one party is a financial institution, and at least one party is established in a participating EU Member State. A financial institution may be, or be deemed to be, "established" in a participating EU Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating EU Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating EU Member State.

The FTT proposal remains subject to negotiation between the participating EU Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of the Bonds are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Sale of the Bonds

The Issuer intends to sell the Bonds to the investors through the Lead Manager at a pre-agreed issue price to be specified in the Subscription Agreement.

The Issuer may at any time until the Final Maturity Date issue further tranches of the Bonds governed by the Terms and Conditions up to the Maximum Principal Amount. The Issuer may sell any number of such subsequently issued Bonds by any means the Issuer may deem fit in its sole discretion. Issue price of the Bonds shall be determined by the Issuer from time to time whenever any such future tranche of the Bonds is sold.

The nominal value of the bonds issued under the Terms and Condition of the Bonds shall not exceed EUR 50,000,000.

Selling restrictions

United States of America

The Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

No Bonds can be offered, sold or delivered, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Bonds, within the United States or to, or for the account or benefit of, U.S. persons. In addition, until 40 days after the commencement of the offering of Bonds, any offer or sale of Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

European Economic Area

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), no offer of the Bonds which are the subject of the offering contemplated by the Offering Circular may be made to the public in that Relevant Member State except that an offer may be made in a Relevant Member State to qualified investors as defined in the Prospectus Directive; or at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Bonds shall require the Issuer or the Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Bonds to the public" in relation to any Bonds in any Relevant Member State means the communication in any form and by any means (including by way of distribution of this Offering Circular) of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that EU Member State.

The Slovak Republic

No approval or permit has been sought or obtained from the National Bank of Slovakia in accordance with the Securities Act in respect of the Bonds, the offering of the Bonds in the Slovak Republic or abroad or the Offering Circular. Pursuant to Section 125h(1)(b) of the Securities Act, the offering of bonds issued by public international bodies of which one or more Member States are members (such as the Issuer) does not constitute an offering in relation to which the Issuer would be obliged to draw up a prospectus and have such prospectus approved by the National Bank of Slovakia.

SETTLEMENT

Registration of the Bonds

The Bonds shall be registered in the Central Depository and may be held by the relevant holders in their accounts established either with the Central Depository or with a member of the Central Depository.

Title to the Bonds

Only persons that are registered as the owners of the Bonds in the accounts with the Central Depository or with a member of the Central Depository or that are entered in the register of a custodian that holds the Bonds in a holding (intermediary) account with the Central Depository will be recognised as owners of the Bonds. The owners of the Bonds held in a holding (nominee) account with the Central Depository will be able to exercise all of their rights against the Issuer through the respective custodian (accountholder) that has such holding (intermediary) account with the Central Depository.

ICSDs

The Bonds may also be held through Euroclear and/or Clearstream. As of the date hereof, both Euroclear and Clearstream have either direct or indirect links with the Central Depository; an indirect link is normally maintained through a custodian that holds Bonds for ICDS in a holding (nominee) account with the Central Depository. Persons holding any Bonds in their accounts with Euroclear and/or Clearstream must only look to Euroclear and/or Clearstream for the discharge of the obligations of the Issuer under the Bonds. Subject to as further provided below, such persons holding any Bonds through Euroclear and/or Clearstream may only exercise their rights against the Issuer through Euroclear and/or Clearstream or the relevant custodian that holds such Bonds for Euroclear and/or Clearstream, whichever entity is registered as a holder of an account in relation to such Bonds with the Central Depository.

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

It should be noted that the Issuer does not have any direct agreement with Euroclear and/or Clearstream to the effect that any links with the Central Depository will remain available as long as any Bonds remain outstanding. The Issuer does not have any direct means to ensure that such links will remain available.

GENERAL INFORMATION

(1) The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issuance of the Bonds.

(2) An application shall be made to admit the Bonds to trading on the regulated free market (in Slovak: *regulovaný voľný trh*) of the Bratislava Stock Exchange. Bonds may also be admitted to listing, trading and/or quotation on any other listing authorities, stock exchanges, regulated markets and/or quotation systems or which will be admitted to listing, trading and/or quotation on any other listing authorities, stock exchanges, regulated markets and/or quotation systems as the Issuer sees fit. No assurance can be given that the Bonds will be admitted to trading.

(3) For so long as any Bonds shall be outstanding, copies of the Offering Circular and Terms and Conditions of the Bonds (both in English language only) shall be provided by the Issuer in electronic form upon oral or written request and be also available on the website of the Issuer at www.iibbank.com/en.

(4) For so long as any Bonds shall be outstanding, a copy of the Administration Agreement shall be made available for inspection at the Specified Office of the Administrator.

(5) The Bonds will be accepted for clearance through the Central Depository.

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2. Audited consolidated financial statements of the Issuer for the year ended 31 December 2013
3. Unaudited reviewed interim condensed consolidated financial statements of the Issuer for the six month period ended 30 June 2014

ISSUER

International Investment Bank
7 Mashi Poryvaevoi St.
Moscow, 107078
Russian Federation

LEAD MANAGER

Tatra banka, a.s.
Hodžovo námestie 3
811 06 Bratislava
Slovak Republic

ADMINISTRATOR

Tatra banka, a.s.
Hodžovo námestie 3
811 06 Bratislava
Slovak Republic

LEGAL ADVISER
(acting as transactional counsel)

Allen & Overy Bratislava, s.r.o.
Eurovea Central 1, Pribinova 4
811 09 Bratislava
Slovak Republic

AUDITORS TO THE ISSUER

CJSC Ernst & Young Vneshaudit
Sadovnicheskaya Nab., 77, bld.1
Moscow, 115035
Russian Federation

International Investment Bank

Consolidated financial statements

Year ended 31 December 2012
Together with Independent Auditors' Report

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ERNST & YOUNG

CJSC Ernst & Young Vneshaudit
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com

ЗАО «Эрнст энд Янг Внешаудит»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 00139790

Independent auditors' report

To the Council of the International Investment Bank

We have audited the accompanying consolidated financial statements of the International Investment Bank and its subsidiaries (hereinafter the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

22 March 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

(Thousands of Euros)

	Note	*31 December 2012*	*31 December 2011*
Assets			
Cash and cash equivalents	5	8,407	13,901
Deposits with banks and other financial institutions	6	91,807	111,244
Investment securities available-for-sale	7	100,104	71,035
Investment securities held-to-maturity	8	–	423
Loans to customers	9	49,105	44,252
Assets held for sale	10	10,744	1,910
Investment property	11	52,409	50,287
Property and equipment	12	51,449	49,940
Other assets	13	3,051	1,451
Assets of disposal group	25	–	10,368
Total assets		**367,076**	**354,811**
Liabilities			
Due to banks and other financial institutions	14	3,788	1
Current customer accounts		2,396	2,382
Other liabilities	13	5,803	5,773
Liabilities of disposal group	25	–	2,727
Total liabilities		**11,987**	**10,883**
Equity	15		
Subscribed capital		1,300,000	1,300,000
Callable capital		(1,134,752)	(1,085,505)
Paid-in capital		**165,248**	**214,495**
Revaluation reserve for investment securities available-for-sale		4,340	(2,351)
Revaluation reserve for property		33,375	31,091
Foreign currency translation reserve		–	70
Retained earnings less net income for the year		149,870	98,244
Net income for the year		2,256	2,379
Total equity		**355,089**	**343,928**
Total equity and liabilities		**367,076**	**354,811**

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

Nikolay Kosov — Chairman of the Board

Eugeny Atanassov — Managing Director of the Financial Department

22 March 2013

The accompanying notes 1-25 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

(Thousands of Euros)

	Note	*2012*	*2011*
Financial result from continuing operations			
Interest income	18	8,690	8,516
Interest expenses	18	(32)	(55)
Net interest income		**8,658**	**8,461**
(Provision) for loan impairment	9	(4,782)	(6,158)
Net interest income/(expense) after provision for loan impairment		**3,876**	**2,303**
Fee and commission income		238	292
Fee and commission expense		(68)	(69)
Net fee and commission income		**170**	**223**
Net gains/(losses) from foreign currencies	19	724	(151)
Net gains/(losses) from financial instruments at fair value through profit and loss			
Combined financial instruments		–	2,174
Net gains from investment securities available-for-sale	15	3,727	428
Income from lease of investment property	11	7,331	6,763
Income from sale of assets held for sale		75	–
Income from revaluation of investment property	11	1,615	1,755
Dividend income		182	–
Gain from bargain purchase	25	–	2,648
Other income		201	78
Net non-interest income		**13,855**	**13,695**
Operating income		**17,901**	**16,221**
Provision for impairment of other assets		(161)	(2)
General and administrative expenses	20	(13,503)	(12,865)
Other operating expenses		(1,343)	(1,488)
Operating expenses		**(15,007)**	**(14,355)**
Income from continuing operations before income tax benefit		**2,894**	**1,866**
Income tax benefit		2	–
Income from continuous operations after income tax		**2,896**	**1,866**
Income (loss) from discontinued operations after income tax	25	**(640)**	**513**
Net income for the year		**2,256**	**2,379**

The accompanying notes 1-25 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

(Thousands of Euros)

	2012	*2011*
Net income for the year	**2,256**	**2,379**
Other comprehensive income/(loss)		
Gains/(losses) from investment securities available-for-sale	6,691	(2,904)
Revaluation of property	2,284	3,246
Translation differences	(70)	70
Total other comprehensive income	**8,905**	**412**
Total comprehensive income for the year	**11,161**	**2,791**

The accompanying notes 1-25 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

(Thousands of Euros)

	Subscribed capital	*Callable capital*	*Revaluation reserve for investment securities available-for-sale*	*Revaluation reserve for property*	*Foreign currency translation reserve*	*Retained earnings*	*Total equity*
At 31 December 2010	**1,300,000**	**(1,085,505)**	**553**	**27,845**	**–**	**98,244**	**341,137**
Total comprehensive income/(loss)	–	–	(2,904)	3,246	70	2,379	2,791
At 31 December 2011	**1,300,000**	**(1,085,505)**	**(2,351)**	**31,091**	**70**	**100,623**	**343,928**
Total comprehensive income/(loss)	–	–	6,691	2,284	(70)	2,256	11,161
Withdrawal of the member countries (Note 15)	–	(49,247)	–	–	–	49,247	–
At 31 December 2012	**1,300,000**	**(1,134,752)**	**4,340**	**33,375**	**–**	**152,126**	**355,089**

The accompanying notes 1-25 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

(Thousands of Euros)

	Note	*2012*	*2011*
Cash flows from operating activities			
Interest, fees and commissions received from loans to customers and deposits with banks and other financial institutions		3,146	6,134
Interest received from combined financial instruments		–	757
Interest, fees and commissions paid		(96)	(116)
Net receipts from trading with foreign currencies		(160)	15
Cash flows from lease of investment property		7,331	6,763
Income from sale of assets held for sale		75	–
General and administrative expenses		(11,350)	(10,109)
Other operating expenses		(1,347)	(1,414)
Cash flows from operating activities before changes in operating assets and liabilities		**(2,401)**	**2,030**
Net (increase)/decrease in operating assets			
Deposits with banks and other financial institutions		19,893	(81,308)
Combined financial instruments		–	17,907
Loans to customers		(10,803)	(938)
Assets held for sale		–	(1,733)
Other assets		554	700
Net increase/(decrease) in operating liabilities			
Due to banks and other financial institutions		3,819	(1,017)
Current customer accounts		17	121
Other liabilities		(40)	(551)
Net cash flows from operating activities		**11,039**	**(64,789)**
Cash flows from investing activities			
Purchase of available-for-sale investment securities		(153,836)	(58,151)
Proceeds from sale and redemption of available-for-sale investment securities		138,776	49,314
Investment in investment property		(507)	(1,655)
Acquisition of property and equipment		(982)	(581)
Net cash flows from investing activities		**(16,549)**	**(11,073)**
Effect of exchange rate changes on cash and cash equivalents		16	40
Net decrease in cash and cash equivalents		**(5,494)**	**(75,822)**
Cash and cash equivalents, beginning		**13,901**	**89,723**
Cash and cash equivalents, ending	5	**8,407**	**13,901**

The accompanying notes 1-25 are an integral part of these consolidated financial statements.

(Thousands of Euros)

1. Principal activities

These consolidated financial statements include the financial statements of the International Investment Bank (the "Bank") and its subsidiaries. The Bank and its subsidiaries are hereinafter referred together as the "Group". The International Investment Bank is the parent company of the Group. The list of the Bank's subsidiaries is presented in Note 2.

The Bank was founded in 1970, has operated since 1 January 1971 and is an international institution operating on the basis of the Intergovernmental Agreement on the Establishment of the International Investment Bank (the "Agreement") and the Statutes. The Agreement was ratified by the member countries of the Bank and registered with the Secretariat of the United Nations in December 1971. The Bank is primarily engaged in commercial lending for the benefit of national investment projects in the member countries of the Bank and for other purposes defined by the Council of the Bank. The Bank also performs transactions with securities and foreign currency. The Bank operates from its office at 7 Mashi Poryvaevoi St., Moscow, Russia.

The Group had an average of 148 staff employees during 2012 (2011: 148).

At the 98th meeting of the Bank's Council on 28 November 2012, the heads of the member countries' delegations approved unanimously the IIB Relaunch Program proposed by IIB's Board designed to transform it into a dynamic full-service multilateral development bank. The Program includes the following elements:

- Change priorities in the IIB's lending policy - focus on offering credit products with a low risk level. Reduce the share of direct investment lending to ultimate borrowers in the loan portfolio and refocus to lending via partner banks (providing special purpose credit facilities for the development of the SME sector in the member countries, participating in syndicated lending);
- Improve the Bank's brand recognition and further develop partner relations in order to expand the Bank's lending operations;
- Obtain an international credit rating and enter global capital markets;
- Improve the Bank's risk management system in line with recommendations of the Basel Committee on Banking Supervision;
- Restructure the Bank's organization and employee motivation system, following best practices in place at leading multilateral development banks, to enhance the Bank's overall performance.

To carry out the above objectives, the Bank has approved a detailed business plan and financial model for 2013 through 2017.

After adopting the new development trajectory in 2012, the Bank has entered into agreements with the State Specialized Russian Export-Import Bank (Closed Joint-Stock Company), Bulgarian Development Bank and Slovenska Zarucna a Rozvojova Banka a.s.

To further step up its practical action, International Investment Bank has entered into a number of agreements as recently as 2013:

- Cooperation agreements with the four largest Vietnamese banks – JSC Bank for Investment and Development of Vietnam, Vietnam JSC Bank for Industry and Trade, Vietnam Bank for Agriculture and Rural Development, Ho Chi Minh City Development Joint Stock Commercial Bank;
- A cooperation agreement with Vietnam-Russia Joint Venture Bank;
- An agreement with Eurasian Development Bank on the general terms of interbank transactions in the currency and money markets;
- A cooperation agreement with Vnesheconombank and Belvnesheconombank Open Joint Stock Company;
- A memorandum of cooperation with VTB Bank.

These developments suggest improvements in the IIB's brand recognition, confidence in the Bank and, particularly important, willingness to develop working cooperation with the Bank on the part of potential borrowers and lenders, as well as readiness for broader cooperation on the part of leading multilateral financial institutions.

(Thousands of Euros)

1. Principal activities (continued)

Member countries of the Bank

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

Member countries	*2012* %	*2011* %
Russian Federation	58.026	44.704
Czech Republic	12.587	9.697
Republic of Bulgaria	12.365	9.526
Romania	7.647	5.892
Slovak Republic	6.294	4.849
Republic of Cuba	2.222	1.711
Mongolia	0.435	0.335
Socialist Republic of Vietnam	0.424	0.327
Republic of Poland	–	13.590
Hungary	–	9.369
	100.000	**100.000**

In accordance with the Agreement, each member country of the Bank may withdraw from membership upon notice to the Council of the Bank at least six months in advance. In this case the Bank must settle all obligations to the relevant member country.

Republic of Poland and Republic of Hungary announced their withdrawal from membership in the Bank in 1999 and 2000, respectively, and are no longer full members of the Bank. In 2012, pursuant to the decision of the Council, the shares of the Republic of Poland and Hungary were classified as unallocated equity quota (Note 15).

The member countries of the Bank may vote at the annual and general meetings of the Council and each member country has one vote regardless of the size of its contribution to the Bank's capital.

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

In accordance with the Agreement, the Bank's assets, regardless of location, have immunity from any administrative or judicial interference.

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

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

Business environment in the member countries

The member countries have experienced political and economic change, which has affected, and may continue to affect, the activities of enterprises operating in these countries. Consequently, operations in some member countries involve risks, which do not typically exist in developed markets.

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

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), approved by the International Accounting Standards Board.

(Thousands of Euros)

2. Basis of preparation (continued)

Subsidiaries

On 2 July 2012, the Bank adopted the decision to establish CJSC IIB Capital (a 100% subsidiary).

As at 31 December 2011, the Bank controlled LLC StroyProektInvest as a holder of a 100% interest in the company's share capital. On 17 February 2012, the Bank sold a 100% interest in the share capital of LLC StroyProektInvest (Note 25).

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention with the exception of the financial instruments under fair value convention, the changes of which are translated through profit or loss account for the period, available-for-sale financial instruments also stated at fair value, and buildings and investment property are stated at revalued amounts.

Preparation and presentation of financial statements

The financial year of the Group begins on 1 January and ends on 31 December.

Functional and presentation currency

The management has determined the Group's functional and presentation currency to be the Euro ("EUR") 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. The functional currency of the Group's subsidiaries is Russian ruble.

These consolidated financial statements are presented in thousands of Euros ("Thousands of Euros" or "EUR thousand"), unless otherwise indicated.

3. Summary of accounting policies

Changes in accounting policies

The Group has adopted the following amended IFRS and new IFRIC Interpretations during the year. The principal effects of these changes are as follows:

Amendment to IFRS 7 Financial Instruments: Disclosures

The amendment was issued in October 2010 and is effective for annual periods beginning on 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred to enable the user of the Group's financial statements to assess the risks associated with those assets. The amendment affected disclosure only and had no impact on financial position or performance of the Group.

The following amended standards had no impact on accounting policies, financial position or performance of the Group:

- Amendment to IAS 12 *Income Taxes − Deferred Taxes: Recovery of Underlying Assets*;
- Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters.*

Foreign currency transactions

For the purposes of these consolidated financial statements, any currency other than the Euro is treated as a foreign currency. Foreign currency transactions are recorded in the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate ruling at the reporting date. Gains and losses arising from foreign exchange differences are recognized in the consolidated income statement as net gains/(losses) from foreign currencies. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated to the functional currency at the exchange rate ruling at the date of the initial transaction. Non-monetary assets and liabilities that are recorded at fair value in a foreign currency are translated to the euro at the exchange rate ruling at the date when their fair value was measured.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Foreign currency transactions (continued)

Differences between the contractual exchange rate of a transaction in a foreign currency and the Group's official exchange rate at the date of the transaction are included in net gains/(losses) from foreign currencies.

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent’s share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights or equity interest, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognized at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group’s share of net assets of the associate. The Group’s share of its associates’ profits or losses is recognized in the consolidated income statement, and its share of movements in reserves is recognized in other comprehensive income. However, when the Group’s share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, Nostro accounts due from banks and other financial institutions and short-term deposits with banks, including reverse repurchase agreements, which mature within ninety days from the origination date and are free from contractual encumbrances.

Financial instruments

Recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value. In the case of investments not classified as financial assets at fair value through profit or loss, directly attributable transaction costs are added to their fair value. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Financial instruments (continued)

Financial assets and liabilities are recorded in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the transaction date, i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

'Day 1' profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognizes the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated income statement. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated income statement when the inputs become observable, or when the instrument is derecognized.

Classification of financial instruments

Financial instruments at fair value through profit or loss, are those assets and liabilities that are:

- Acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- Derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) and held for trading; or
- Upon initial recognition, are designated by the Group as at fair value through profit or loss.

The Group designates financial assets and liabilities at fair value through profit or loss if:

- The assets or liabilities are managed and evaluated on a fair value basis;
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The asset or liability is a combined financial instrument, i.e., contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors.

Derivative financial instruments held for trading that are in a net receivable position (positive fair value) as well as option contracts acquired are reported as assets in the consolidated financial statements. Derivative financial instruments held for trading that are in a net payable position (negative fair value) as well as option contracts issued are reported as liabilities in the consolidated financial statements. Gains and losses resulting from these instruments are included in the consolidated income statement as net gains/(losses) from financial instruments at fair value through profit or loss.

An embedded derivative is separated from the host contract and it is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognized in profit or loss for the period. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

Financial assets and liabilities at fair value through profit or loss in the consolidated income statement for the period are not reclassified after initial recognition. Interest income on financial assets at fair value through profit or loss is recognized in the consolidated income statement as interest income.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Financial instruments (continued)

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than:

- Held-to-maturity financial assets that the Group designates as at fair value through profit or loss upon initial recognition;
- Held-to-maturity financial assets that the Group designates as available for sale upon initial recognition; or
- Held-to-maturity financial assets that meet the definition of loans and accounts receivable.

Financial assets which the Group intends to hold for an undefined period are not included in this classification. Held-to-maturity financial assets are subsequently measured at amortized cost. Gains and losses are recognized in the consolidated income statement when the investments are impaired, as well as through the amortization process.

Loans and accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Loans and accounts receivable that the Group intends to sell immediately or in the near term;Loans and accounts receivable that the Group designates as at fair value through profit or loss upon initial recognition;
- Loans and accounts receivable that are designated as available for sale upon initial recognition; or
- Loans and accounts receivable for which the Group may not substantially recover all of its initial investment, other than because of credit deterioration.

Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated income statement when such assets are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains and losses being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gains and losses previously recognized in other comprehensive income are reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognized in the consolidated income statement.

Fair value measurement principles

The fair value of financial instruments traded in an active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts, and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Financial instruments (continued)

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available-for-sale or held-to-maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value at the date of reclassification. Any gain or loss previously recognized in profit or loss is not reversed. The fair value of the financial asset at the date of reclassification becomes its new cost or amortized cost, as applicable.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repo") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as cash equivalents, amounts due from credit institutions or loans to customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position unless they are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the consolidated income statement. The obligation to return them is recorded at fair value as a trading liability.

Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows from the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For deposits with banks and other financial institutions, held-to-maturity investment securities, loans to customers that are carried at amortized cost the Group assesses individually whether objective evidence of impairment exists for the financial assets.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's amount recorded in the consolidated statement of financial position and the present value of estimated future cash flows (excluding expected future credit losses that have not yet been incurred). The amount of the asset recorded in the consolidated statement of financial position is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount of the asset based on the original effective interest rate of the asset. Financial asset together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If earlier write-offs are later recovered, such the recovery is credited in the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial instruments

For financial instruments available-for-sale, the Group assesses at each reporting date whether there is objective evidence that an instrument or a group of instruments is impaired.

In the case of equity investments classified as available for sale, objective evidence of impairment would include a significant or prolonged decline in the fair value of the investment below its acquisition cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement – is reclassified from other comprehensive income to the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed, the old loan is derecognized and the new loan is recognized in the consolidated statement of financial position;
- If the loan restructuring is not caused by the financial difficulties of the borrower, the Group uses a similar approach as in respect of the derecognition of financial liabilities described below;
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is deemed impaired after this restructuring, the Group recognizes the difference between the present value of the future cash flows discounted using the original effective interest rate and the carrying amount before the restructuring as an expense for impairment in the reporting period. If the loan is not impaired after the restructuring, the Group restates the effective interest rate. In case the loan is not impaired after restructuring, the Group recalculates the effective interest rate.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an impairment assessment, calculated using the loan's original or current effective interest rate.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in the consolidated statement of financial position where:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

Leases

Operating leases – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included in general and administrative expenses.

Operating leases – Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in net non-interest income in the consolidated income statement on a straight-line basis over the lease term as income from lease of investment property. The aggregate cost of incentives provided to lessees is recognized as a reduction of a lease income on a straight-line basis over the lease term. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Investment property

Investment property is property that is not used in the Bank's operations and is held by the Group to earn rentals under operating lease or yield from an increase in its fair value. Investment property is carried at fair value with changes in its fair value recognized in the consolidated income statement. Gains and losses resulting from changes in the fair value of investment property are taken to the financial result and recorded as gains or losses from revaluation and disposal of investment property.

Subsequent costs are capitalized only when it is probable that future economic benefits will flow from the asset and its value can be measured reliably. If there is a change in use of an investment property, it is reclassified to property and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Property and equipment

Property and equipment are carried in the consolidated financial statements at cost, less costs of day-to-day servicing, accumulated depreciation and accumulated impairment losses, excluding buildings that are recorded at revalued amounts, as described below. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying amount of property and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations of buildings are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is recognized in other comprehensive income, except to the extent that it reverses a revaluation deficit of the same asset previously recognized in the consolidated income statement, in which case the increase is recognized in the consolidated income statement. A revaluation deficit is recognized in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of property and equipment (including self-constructed property and equipment) is charged to the consolidated income statement on a straight-line basis over their estimated useful lives from the date when property and equipment become available for use.

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	85
Equipment	3-7
Computers	3-6
Office furniture	5-10
Vehicles	4

The asset’s residual values, useful lives and depreciation methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses, unless they qualify for capitalization.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Intangible assets

Intangible assets include computer software.

Intangible assets acquired by the Group are carried at cost, less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of intangible assets.

	Years
Software	3

Assets classified as held for sale

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

The sale qualifies as highly probable if the Group's management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as completed within one year from the date of classification of the non-current asset as held for sale.

The Group measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of the asset to fair value less costs to sell if events or changes in circumstances indicate that their carrying amount may be impaired.

Interest-bearing liabilities

Interest-bearing liabilities are initially recognized at cost being their initial amount less transaction costs incurred. Subsequently, interest-bearing liabilities are carried at amortized cost, recognizing the difference between the actual amount of funds raised and the price of settling the interest-bearing liability in the consolidated income statement over the period of such liability.

If a liability is redeemed or settled early, the difference between its amount in the consolidated statement of financial position and the price of settlement is recorded in the consolidated income statement.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Equity

In accordance with amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*, that were issued in February 2008, participants' shares are recognized in equity and not in liabilities.

Fiduciary assets

Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Group.

3. Summary of accounting policies (continued)

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest and similar income and expense

For all financial instruments measured at amortized cost and interest-bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and credit and deposit fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

- *Other fee and commission income*

Fees earned for the provision of transaction services are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Fee and commission expense

Fee and commission expenses comprise commissions on securities transactions and commissions on cash settlement transactions. Commissions paid on purchase of securities classified as financial instruments at fair value through profit or loss are recognized in the consolidated income statement at the purchase date. Commissions paid on all other purchases of securities are recognized as an adjustment to the carrying amount of the instrument with corresponding adjustment to its effective yield.

Commissions on cash settlement transactions are recorded in the consolidated income statement at the date when the relevant service is provided.

Dividend income

Revenue is recognized when the Group's right to receive the payment is established.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets The Group will evaluate the impact of the application of the IFRS 9 final version, when issued, on the financial statements in conjunction with the other phases.

IFRS 10 Consolidated Financial Statements

IFRS 10 *Consolidated Financial Statements*, establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In addition IFRS 10 introduces specific application guidance for agency relationships. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation – Special Purpose Entities*, and IAS 27 *Consolidated and Separate Financial Statements*, and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently, the Group evaluates possible effect of the adoption of IFRS 10 on its financial position and performance.

IFRS 11 Joint Arrangements

IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*, and becomes effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently, the Group evaluates possible effect of the adoption of IFRS 11 on its financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities

The standard becomes effective for annual periods beginning on or after 1 January 2013. IFRS 12 contains all disclosure requirements that were previously included in IAS 27 related to consolidated financial statements, as well as all disclosure requirements that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required for such entities. The Group will need to disclose more information about the consolidated and unconsolidated structured entities with which it is involved or which it has sponsored. However, the standard will have no impact on financial position or performance of the Group.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The standard becomes effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of IFRS 13 may have effect on the measurement of the Group's assets and liabilities accounted for at fair value. Currently, the Group evaluates possible effect of the adoption of IFRS 13 on its financial position and performance.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

Amendment to IAS 19 Employee Benefits

The amendment to IAS 19 becomes effective for annual periods beginning on or after 1 January 2013. The amendment introduces significant changes to the method of accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, the amendment limits changes in net pension assets (liabilities) recognized in profit and loss to net interest income (expense) and cost of services. The amendment will have no impact on the Group's financial position or performance.

Amendment to IAS 1 Presentation of Financial Statements – Presentation of Other Comprehensive Income

The amendment changes the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Group’s financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity’s financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments will have no impact on the financial position or performance of the Group. The amendments become effective for annual periods beginning on or after 1 January 2013.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". It will be necessary to assess the impact to the Bank by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default.

The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While many settlement systems are expected to meet the new criteria, some may not. As the impact of the adoption depends on the Group’s examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects.

The amendments become effective for annual periods beginning on or after 1 January 2014.

Amendment to IFRS 1 Government Loans

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. The amendment will have no impact on the Group's financial statements.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Improvements to IFRS

The amendments become effective for annual periods beginning on or after 1 January 2013. These amendments will have no impact on the Group:

IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property, Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments: Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

4. Significant accounting judgments and estimates

Assumptions and estimation uncertainty

Management made a number of estimates and assumptions, which affect the consolidated reporting of assets and liabilities and the carrying value of assets and liabilities in the next financial year. Estimates and assumptions are continuously assessed and are based on the management experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In addition, management relies on judgments and assessments in applying the accounting policies. Most significant judgments which affect the amounts recorded in the consolidated financial statements, and estimates which may result in significant adjustment of the carrying value of assets and liabilities in the next financial year are presented below:

Allowance for loan impairment

The Group regularly reviews its loans to assess impairment. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgments as to whether there is any objective evidence indicating that there is a measurable decrease in the estimated future cash flows from a loan. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or national or local economic conditions that correlate with defaults on liabilities. Impairment loss may be reversed only if a subsequent increase can be objectively related to an event occurring after the impairment loss was recognized. For uncollectible debt, the Group makes allowance in the amount equal to 100% of the amount of debt. Loans are written off at the decision of the Council of the Bank when no economic benefits are expected from them. Loans are recorded in the Group's consolidated statement of financial position less allowances for impairment.

(Thousands of Euros)

4. Significant accounting judgments and estimates (continued)

Assumptions and estimation uncertainty (continued)

Fair values of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by the market price. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The fair value of derivative financial instruments that are not quoted in an active market is determined using valuation methodologies. To the extent it is applicable, the models use only available market information, but certain areas require management estimates. Change in the assessment of these factors may affect fair value reflected in the financial statements. Management has used all available market information in estimating the fair value of financial instruments.

Fair values of buildings and investment property

As disclosed in Note 3, the Group applies the fair value model with regard to buildings and investment property.

As for buildings, the Group monitors the compliance of the value of buildings with their fair value and performs revaluation to ensure that the present value of buildings does not differ materially from their fair value. The Bank's building was revalued on 26 December 2012. Starting from 26 December 2012, the revalued building is depreciated in accordance with the remaining useful life. Changes in the fair value are recognized in other comprehensive income. For evaluating purposes the Group engages independent professional appraisers and applies an appropriate valuation methodology and information on transactions with similar real estate objects on the local market. However, valuation results based on the above valuation method may differ from the prices of actual transactions on the real estate market.

As for investment property, the Group monitors changes in its fair value at each reporting date to ensure that the current value of investment property does not differ materially from its fair value. The Group's investment property was revalued as at 26 December 2012. At 31 December 2012, there were no significant changes in the fair value. Changes in the fair value of investment property are recognized in the consolidated income statement. The Group determines the fair value of investment property by engaging independent professional appraisers and applying an appropriate valuation methodology and information on transactions with similar real estate objects on the local market. However, valuation results based on the above valuation method may differ from the prices of actual transactions on the real estate market.

Impairment of equity securities available for sale

The Group determines that available-for-sale equity investment securities are impaired when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates, among other factors, the volatility of share prices. In addition, impairment may take place when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operating or financing cash flows.

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

- Note 7 *Available-for-sale investment securities*
- Note 9 *Loans to customers*
- Note 11 *Investment property*
- Note 12 *Property and equipment*
- Note 16 *Contingencies and lending commitments*.

(Thousands of Euros)

4. Significant accounting judgments and estimates (continued)

Changes in accounting estimates

Initial valuation of assets held for sale

In June 2012, as a result of repayment of a portion of an impaired loan, the Group received equipment and recognized it as assets held for sale at the lower of cost and fair value less costs to sell (Note 10). In December 2012, based on the report of an independent appraiser, the Group reviewed its accounting estimates with regard to the fair value of the received equipment by decreasing the carrying value of the asset held for sale and recognizing the additional impairment of outstanding portion of the loan in the amount of EUR 977 thousand.

Useful life of buildings

On 1 January 2012, the Group reviewed its accounting estimates with regard to the useful life of buildings. The new useful life is 85 years (previously, 50 years). As at 1 January 2012 residual useful life of the building comprised 66 years. As a result of changes in the accounting estimates with regard to the useful life of a building, the annual depreciation costs of the Group decreased by EUR 580 thousand.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2012	*2011*
Cash on hand	**103**	**29**
Nostro accounts with banks and other financial institutions		
Credit rating AAA	820	449
Credit rating from A− to A+	1,513	317
Credit rating from BBB− to BBB+	51	11
No credit rating	4	4
Total Nostro accounts with banks and other financial institutions	**2,388**	**781**
Short-term deposits with banks:		
Term deposits with banks		
Credit rating from A− to A+	–	9,503
Credit rating from BBB− to BBB+	5,916	565
	5,916	**10,068**
Reverse repurchase agreements – *No credit rating*	–	3,023
Total short-term deposits with banks	**5,916**	**13,091**
Cash and cash equivalents	**8,407**	**13,901**

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

As at 31 December 2011, the Group entered into reverse repurchase agreements with the Central Cooperative Bank, Sophia. The subject of these agreements was investment-rated sovereign Bulgarian Eurobonds. As at 31 December 2011, the fair value of the Eurobonds was EUR 3,358 thousand.

(intentionally blank)

(Thousands of Euros)

6. Deposits with banks and other financial institutions

Deposits with banks and other financial institutions comprise:

	2012	*2011*
Term deposits with banks		
Credit rating from A− to A+	10,017	71,146
Credit rating from BBB− to BBB+	25,069	40,098
Credit rating from BB− to BB+	25,085	–
Credit rating from B+	18,759	–
No credit rating	12,877	–
Deposits with banks and other financial institutions	**91,807**	**111,244**

Asat 31 December 2012, the Group placed deposits with banks in the Republic of Cuba made before 1990. These balances accounted for over 10% of the total deposits with banks and other financial institutions. The Group made a 100% allowance for impairment of these deposits.

	2012	*2011*
Term deposits with banks in the Republic of Cuba without credit rating	35,119	35,049
Less: allowance for impairment	(35,119)	(35,049)
Term deposits with banks in the Republic of Cuba	**–**	**–**

Information on change in the allowance for impairment of deposits with banks in the Republic of Cuba:

	2012	*2011*
At 1 January	**35,049**	**34,774**
Change in allowance resulting from changes in exchange rates	70	275
At 31 December	**35,119**	**35,049**

Repayment of the deposits with banks in the Republic of Cuba is a lasting process and the management believes that these receivables are deposits only formally and historically and are not relevant to the actual state of the Group's deposits. As a result, the Group does not include this debt (for which there is a 100% allowance) in the calculation of the quality and concentration of the Group's deposits.

As at 31 December 2012, the Group had no counterparties (2011: no counterparties) accounting for over 20% of the Group's total deposits with banks and other financial institutions, except for deposits with banks in the Republic of Cuba.

7. Available-for-sale investment securities

Available-for-sale investment securities comprise:

	2012	*2011*
Quoted debt securities		
Government bonds of member countries and municipal bonds:		
Eurobonds issued by governments of member countries	34,853	22,745
Bonds of local governments and municipal bonds	12,774	10,217
Government bonds of member countries and municipal bonds	**47,627**	**32,962**
Corporate bonds:		
Credit rating from A− to A+	3,877	–
Credit rating from BBB− to BBB+	41,959	34,759
Credit rating from BB− to BB+	4,258	1,115
Corporate bonds	**50,094**	**35,874**
Total quoted debt securities	**97,721**	**68,836**
Quoted equity instruments		
Credit rating from BB− to BB+	2,383	2,199
Total quoted equity instruments	**2,383**	**2,199**
Available-for-sale investment securities	**100,104**	**71,035**

(Thousands of Euros)

7. Available-for-sale investment securities (continued)

Government bonds of member countries represent EUR-denominated securities issued and guaranteed by the Ministries of Finance of these countries, maturing in 2015-2025 (2011: maturing in 2013-2025). The annual coupon rate for these bonds varies from 3.6% to 5.3% (2011: from 3.8% to 7.5%)

Bonds of local governments and municipal bonds represent EUR-denominated and RUR-denominated bonds issued by the city of Moscow, maturing in 2016 (2011: maturing in 2015-2016). The annual coupon rate for these bonds is 5.1% (2011: from 5.1% to 7.8%).

Corporate bonds are represented by the bonds issued by major companies and banks of member countries and EU countries, maturing in 2013-2022 (2011: maturing in 2011-2017). The annual coupon rate for these bonds varies from 4.3% to 8.5% (2011: from 4.5% to 10.81%).

Quoted equity securities are represented by shares of a major Russian company.

8. Held-to-maturity investment securities

As at 31 December 2011, held-to-maturity investment securities include quoted Eurobonds of Rosbank International Finance B.V. with the carrying amount of EUR 423 thousand. On 1 July 2012, the issuer redeemed these securities.

9. Loans to customers

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

	2012	*2011*
Russian Federation	89,874	91,625
Mongolia	23,377	19,225
Slovak Republic	7,465	3,876
Republic of Bulgaria	6,153	2,930
Total loans to customers	**126,869**	**117,656**
Less: allowance for loan impairment	(77,764)	(73,404)
Loans to customers	**49,105**	**44,252**

	2012	*2011*
Loans to borrowers in the Republic of Cuba	44,117	45,173
Less: allowance for loan impairment	(44,117)	(45,173)
Loans to customers	–	–

Loans to borrowers in the Republic of Cuba originated during the period of 1985-1990. In December 1990, the Republic of Cuba discontinued payments to repay the debt. Due to the absence of collateral, delays for years and difficult economic conditions in Cuba, the Group made a 100% allowance for the debt.

Repayment of the loans issued to borrowers in the Republic of Cuba is a lasting process and the management believes that these receivables relate to the Group's loan portfolio just formally and historically and are not relevant to the actual state of the Group's loan portfolio. In view of the above, receivables relating to borrowers in the Republic of Cuba, for which a 100% allowance was made, are neither included in the calculation of the quality of the Group's loan portfolio nor reflected in the tables below.

9. Loans to customers (continued)

Overdue loans

A summary of overdue loans as at 31 December 2012 and 2011 is presented below:

	2012	*2011*
Total loans for which the principal and/or interest is overdue	96,586	91,226
Less: allowance for loan impairment	(76,830)	(71,869)
Loans to customers	**19,756**	**19,357**

Allowance for loan impairment has been allocated to loans as follows:

	Russian Federation	*Mongolia*	*Republic of Bulgaria*	*Total*
At 1 January 2012	**67,878**	**5,526**	**–**	**73,404**
Net charge for the year	1,553	302	2,927	**4,782**
Interest accrued on impaired loans	(402)	–	–	**(402)**
Change in allowance resulting from changes in exchange rates	–	(20)	–	**(20)**
At 31 December 2012	**69,029**	**5,808**	**2,927**	**77,764**
Individual impairment	**69,029**	**5,808**	**2,927**	**77,764**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**89,874**	**11,790**	**2,927**	**104,591**

	Russian Federation	*Mongolia*	*Republic of Bulgaria*	*Total*
At 1 January 2011	**72,283**	**5,412**	**8**	**77,703**
Net charge for the year	6,084	82	(8)	**6,158**
Effect of acquisition of subsidiary, to which earlier a loan had been provided	(3,639)	–	–	**(3,639)**
Amounts written off	(7,004)	–	–	**(7,004)**
Change in allowance resulting from changes in exchange rates	154	32	–	**186**
At 31 December 2011	**67,878**	**5,526**	**–**	**73,404**
Individual impairment	**67,878**	**5,526**	**–**	**73,404**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**91,625**	**11,911**	**2,930**	**106,467**

As at 31 December 2012 and 2011 there were no overdue but not impaired loans in the Group’s portfolio.

Change in these estimates may influence the size of allowance for loan impairment. For example, if the net present value of estimated future cash flows has increased/declined by 1%, allowance for impairment would have declined/increased by EUR 491 thousand as at 31 December 2012 (2011: by EUR 443 thousand).

Concentration of loans to customers

As at 31 December 2012, loans to two borrowers (2011: three) with the total amount of loans to each of the two borrowers exceeding 10% of total loans to customers were recorded on the Group's balance sheet. As at 31 December 2012, these loans total comprised EUR 38,252 thousand (2011: EUR 54,749 thousand) and an allowance of EUR 24,479 thousand (2011: EUR 32,778 thousand) has been made for them.

(Thousands of Euros)

9. Loans to customers (continued)

Analysis of collateral

The following table provides an analysis of the loan portfolio, net of allowance for impairment, by types of collateral as at 31 December 2012 and 2011:

	2012		*2011*	
	Loans net of allowance for impairment	*Share in the total loans, %*	*Loans net of allowance for impairment*	*Share in the total loans, %*
Pledge of real property (mortgage) and title	30,795	62.7	26,646	60.2
Pledge of equipment and goods in turnover	7,118	14.5	16,895	38.2
Pledge of rights of demand and construction	–	–	405	0.9
Other	286	0.6	306	0.7
Uncollateralised part of the loans	10,906	22.2	–	0.0
Total	**49,105**	**100.0**	**44,252**	**100.0**

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

As at 31 December 2012, fair value of collateral based on which impaired loans are provided for, amounted to EUR 27,908 thousand (2011: 24,894 thousand).

Analysis of loans by industry

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

	2012	*2011*
Construction of buildings	50,816	31,378
Food and beverage	24,476	25,191
Production, transmission and distribution of electricity, gas and steam	22,893	32,551
Timber manufacturing	10,005	10,005
Mining	8,922	12,340
Specialized construction	7,465	3,876
Rubber and plastic manufacturing	1,365	1,368
Air transport	927	947
	126,869	**117,656**
Less: allowance for loan impairment	(77,764)	(73,404)
Loans to customers	**49,105**	**44,252**

10. Assets held for sale

Assets held for sale are represented by collateral received by the Bank from its debtors who failed to fulfill their obligations on the settlement of overdue loans. The Bank plans to realize these assets within 12 months and takes active actions for their further sale. Management believes that the assets received can be qualified as assets held for sale.

	2012	*2011*
Equipment	10,744	–
Property rights to participatory construction objects	–	1,719
Real estate	–	191
Assets held for sale	**10,744**	**1,910**

On 28 May 2012, real estate previously classified as an asset held for sale was sold to an independent purchaser.

In June 2012, as a result of repayment of a portion of an impaired loan, the Group received power equipment. The loan was issued to a borrower operating in the electric power industry.

In 2012, the Group could not realize property rights to participatory construction objects that were received in 2011, and reclassified those assets to other assets in the reporting period (Note 13).

(Thousands of Euros)

11. Investment property

In 2012 and 2011, the following changes occurred in the cost of property under operating lease:

	2012	*2011*
At 1 January	**50,287**	**47,951**
Inseparable improvements	507	581
Effect of revaluation	1,615	1,755
Carrying value as at 31 December	**52,409**	**50,287**

The Group rents buildings under operating lease agreements. In 2012 the Group's income from lease of investment property amounted to EUR 7,331 thousand (2011: EUR 6,763 thousand).

The Group engaged an independent appraiser to determine the fair value of its buildings. The valuation services were performed by an independent firm of professional appraisers which have acknowledged qualification and relevant professional experience in appraising real property of a similar category and in a similar location. Fair value is determined by reference to market-based evidence. The date of the revaluation was 26 December 2012. If the investment property was measured using the cost model, the carrying amounts as of 31 December 2012 would be as follows:

	2012	*2011*
Cost	29,055	28,791
Accumulated depreciation	(10,450)	(10,004)
Net book value	**18,605**	**18,787**

12. Property and equipment

The movements in property and equipment for the year ended 31 December 2012 were as follows:

	Buildings	*Equipment*	*Computers and software*	*Office furniture*	*Vehicles*	*Total*
Cost						
At 1 January 2012	**48,315**	**8,013**	**3,256**	**496**	**555**	**60,635**
Inseparable improvements	487	–	–	–	–	**487**
Additions	–	225	222	20	28	**495**
Disposals	–	(5)	–	(23)	–	**(28)**
Accounting for accumulated depreciation at revaluation	(732)	–	–	–	–	**(732)**
Effect of revaluation	2,284	–	–	–	–	**2,284**
At 31 December 2012	**50,354**	**8,233**	**3,478**	**493**	**583**	**63,141**
Accumulated depreciation						
At 1 January 2012	**–**	**(7,286)**	**(2,538)**	**(355)**	**(516)**	**(10,695)**
Charge for the year	(732)	(316)	(641)	(18)	(42)	**(1,749)**
Disposals	–	4	–	16	–	**20**
Accounting for accumulated depreciation at revaluation	732	–	–	–	–	**732**
At 31 December 2012	**–**	**(7,598)**	**(3,179)**	**(357)**	**(558)**	**(11,692)**
Net book value						
At 31 December 2011	**48,315**	**727**	**718**	**141**	**39**	**49,940**
At 31 December 2012	**50,354**	**635**	**299**	**136**	**25**	**51,449**

(Thousands of Euros)

12. Property and equipment (continued)

The movements in property and equipment for the year ended 31 December 2011 were as follows:

	Buildings	*Equipment*	*Computers and software*	*Office furniture*	*Vehicles*	*Total*
Cost						
At 1 January 2011	**46,070**	**7,688**	**2,700**	**502**	**553**	**57,513**
Additions	559	538	556	–	2	**1,655**
Disposals	–	(213)	–	(6)	–	**(219)**
Accounting for accumulated depreciation at revaluation	(1,560)	–	–	–	–	**(1,560)**
Effect of revaluation	3,246	–	–	–	–	**3,246**
At 31 December 2011	**48,315**	**8,013**	**3,256**	**496**	**555**	**60,635**
Accumulated depreciation						
At 1 January 2011	**(120)**	**(7,233)**	**(1,864)**	**(340)**	**(444)**	**(10,001)**
Charge for the year	(1,440)	(265)	(674)	(20)	(72)	**(2,471)**
Disposals	–	212	–	5	–	**217**
Transfers	–	–	–	–	–	–
Accounting for accumulated depreciation at revaluation	1,560	–	–	–	–	**1,560**
At 31 December 2011	**–**	**(7,286)**	**(2,538)**	**(355)**	**(516)**	**(10,695)**
Net book value						
At 31 December 2010	**45,950**	**455**	**836**	**162**	**109**	**47,512**
At 31 December 2011	**48,315**	**727**	**718**	**141**	**39**	**49,940**

As at 31 December 2012, the cost of fully depreciated property and equipment still used by the Group was EUR 10,056 thousand (2011: EUR 7,064 thousand).

The Group engaged an independent appraiser to determine the fair value of its buildings. The valuation services were performed by an independent firm of professional appraisers which have acknowledged qualification and relevant professional experience in appraising real property of a similar category and in a similar location. Fair value is determined by reference to market-based evidence as at 26 December 2012.

If the buildings were measured using the cost model, the carrying amounts as of 31 December 2012 would be as follows:

	2012	*2011*
Cost	28,123	27,801
Accumulated depreciation	(10,022)	(9,612)
Net book value	**18,101**	**18,189**

13. Other assets and liabilities

Other assets comprise:

	2012	*2011*
Property rights to participatory construction objects	1,811	–
Advance payments and future period expenses	1,026	1,565
Other accounts receivable	492	6
Deferred income tax assets	2	–
	3,331	**1,571**
Less: provision for impairment of accounts receivable	(280)	(120)
Other assets	**3,051**	**1,451**

(Thousands of Euros)

13. Other assets and liabilities (continued)

Other liabilities comprise:

	2012	*2011*
Other accounts payable	3,098	3,210
Provision for potential VAT payments related to income from leases	1,962	1,895
Settlements with employees	621	544
Other	122	124
Other liabilities	**5,803**	**5,773**

14. Due to banks and other financial institutions

Due to banks and other financial institutions comprise:

	2012	*2011*
Correspondent accounts of banks without rating	1	1
Term deposits of banks without rating	3,787	–
Due to banks and other financial institutions	**3,788**	**1**

15. Equity

Equity

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

In 2012, based on the Council's decision, the Bank's paid-in share capital decreased by EUR 49,247 thousand (shares of the Republic of Poland and Hungary). The Bank had no liabilities to the Republic of Poland and Hungary, because per Bank’s estimates the net assets of the International Investment Bank were negative as of the date the countries applied for withdrawal. Therefore, the Bank deems liabilities to the Republic of Poland and Hungary as settled. The shares were transferred from the Bank's paid-in capital to retained earnings as the shares unallocated between the member countries.

Callable capital is the amount of contributions by the Bank's member countries which have not been made yet and the amount of unallocated equity contributions totaling EUR 296,900 thousand as at 31 December 2012.

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

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

	Revaluation reserve for available-for-sale investment securities	*Revaluation reserve for property and equipment*	*Revaluation reserve for currencies*
At 1 January 2011	**553**	**27,845**	**–**
Net unrealized losses on available-for-sale investments securities	(2,476)	–	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(428)	–	–
Revaluation of buildings	–	3,246	–
Revaluation of currencies	–	–	70
At 31 December 2011	**(2,351)**	**31,091**	**70**
Net unrealized gains on available-for-sale investment securities	10,418	–	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(3,727)	–	–
Revaluation of buildings	–	2,284	–
Disposal of currency revaluation	–	–	(70)
At 31 December 2012	**4,340**	**33,375**	**–**

(Thousands of Euros)

15. Equity (continued)

Revaluation reserve for available-for-sale investment securities

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

Revaluation reserve for property and equipment

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

Revaluation reserve for currencies

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

16. Contingencies and loan commitments

Legal

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

In the ordinary course of business, the Group acts as a plaintiff in a number of court proceedings against its borrowers. The Group takes all necessary legal and other actions to collect the bad debt and to realize respective repossession rights. When the estimated amount of costs resulting from the Group's further actions to collect bad debt and/or realize respective repossession rights is higher than the amount collected and also when the Group holds necessary and sufficient documents and/or regulations issued by the governmental authorities, it decides to write off such bad debt against the respective provision.

Insurance

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

Commitments and contingencies

At any time the Group has outstanding commitments to extend loans. These commitments take the form of approved loan agreements.

The contractual amounts of off-balance sheet commitments are set out in the table below. The amounts reflected in the table for commitments assume that amounts are fully advanced.

As at 31 December, the Group's commitments and contingencies comprised the following:

	2012	*2011*
Credit related commitments		
Undrawn loan facilities	20,419	22,539
Commitments and contingencies	**20,419**	**22,539**

17. Leases

Group as lessor

The Group provides its real estate for operating leases. The Group's non-cancelable operating lease rentals are receivable as follows:

	2012	*2011*
Less than 1 year	7,292	5,131
Leases	**7,292**	**5,131**

(Thousands of Euros)

18. Interest income and interest expense

Net interest income comprises:

	2012	*2011*
Loans to customers	3,600	3,216
Available-for-sale investment securities and held-to-maturity investment securities	3,366	2,865
Deposits with banks and other financial institutions	1,724	1,678
	8,690	**7,759**
Combined financial instruments	–	757
Interest income	**8,690**	**8,516**
Due to banks and other financial institutions	(2)	(34)
Current customer accounts	(30)	(21)
Interest expenses	**(32)**	**(55)**
Net interest income	**8,658**	**8,461**

As at 31 December 2012, interest income accrued on impaired loans to customers amounted to EUR 1,615 thousand (2011: EUR 2,254 thousand).

19. Net gain/(loss) from foreign currencies

Net gains less losses from foreign currencies comprise:

	2012	*2011*
Net gain/(loss) from revaluation of assets and liabilities in foreign currencies	884	(166)
Net (loss)/gain from trading in foreign currencies	(160)	15
Net gain/(loss) from foreign currencies	**724**	**(151)**

20. General and administrative expenses

General and administrative expenses comprise:

	2012	*2011*
Employee compensations and employment taxes	7,620	7,121
Depreciation charge	1,749	2,471
IT-expenses, inventory and occupancy expenses	1,473	1,118
Expenses related to business travel, representative and accommodation expenses	1,291	997
Consulting and audit expenses	466	261
Other	904	897
General and administrative expenses	**13,503**	**12,865**

21. Risk management

The Group classifies risks inherent in its various activities into three main groups:

- financial risks;
- operational risks;
- business risks.

(Thousands of Euros)

21. Risk management (continued)

Risk management framework

The Group's risk management policy is based on the conservative assessments and is mainly aimed at mitigation of adverse impact of risks on the Group's results, i.e. on the safety and reliability of fund allocation while maintaining the reasonable level of profitability.

The conservative assessment assumes that the Group does not enter into potential transactions with high or undeterminable risk level, regardless of profitability.

The Group's risk management activities are intended to:

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

Risk management policies and procedures are reviewed regularly to reflect changing situation on the financial markets.

Risk management system

For the purposes of risk management, the Group applies risk management system which ensures cooperation in the area of risk management among all management bodies, business units and committees of the Group in accordance with the existing regulatory documents. The main components of the risk management system include the Council, the Audit Committee, the Board, the Asset, Liability and Risk Committee (ALRCO), the Credit Committee and the Risk Management Department.

The Council is the supreme management body of the Bank responsible for its overall management, approval of the Main Risk Management Principles as well as approval of its key risk ratios.

The Audit Committee appointed by the Council audits the Group's operations considering all the risk factors stipulated by the Regulation on the Audit Committee of the Bank.

The Board is the executive body of the Bank, which is responsible for compliance with risk management policies and procedures as well as ratios and limits established by the Council. The Board ensures co-operation among all business units and committees of the Group with regard to risk management.

ALRCO is the Management Board's collegial body responsible for development and implementation of the risk management policy in the course of interbank and security transactions.

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

Committees meet on a regularly basis and provide to the Management Board their recommendations to improve risk management policies and procedures as well as information on significant transactions.

The Risk Management Department collects and analyzes information related to all types of bank risks, performs their qualitative and quantitative assessment, prepares recommendations for the Management Board and committees of the Group to mitigate risk impact on the Group's performance.

Risk identification

The Group identifies and manages both external and internal risk factors throughout its organizational structure. As a result of regular analysis of the Group's exposure to different types of risks performed by the Risk Management Department, the Group identifies factors leading to the increase of the risk level and determines the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks influencing the results of banking transactions. Current risks exposures and their projected changes are discussed during the meetings of ALRCO and also communicated to the Management Board along with the recommendations on possible risk mitigation measures.

(Thousands of Euros)

21. Risk management (continued)

Risk assessment, management and control

The Group's risk assessment, reporting and control procedures vary by risk type, but are based on a common methodology developed and updated by the Risk Management Department.

Credit risk

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

For risk management purposes, credit risk arising from financial instruments at fair value through profit or loss is managed and reported as a market risk exposure.

System of credit risk management

Upon preparation of a transaction by the initiating unit it is approved by the Credit Committee, and then – the Management Board. The Management Board is responsible for all direct credit risk exposures up to EUR 15,000 thousand and up to 7 years. Direct credit risks exposures of over EUR 15,000 thousand or above 7 years should be approved by the Council of the Bank.

The objective of credit risk management is to decrease its possible adverse effect on the Group's performance based on the maintenance of potential losses resulted from credit risk within established limits.

To mitigate credit risk, the Group limits concentrations of exposure to individual customers, counterparties and issuers (for securities), groups of related customers, counterparties and issuers as well as by industry/sector, credit rating (for securities). Credit risk management process is based on regular analysis of the creditworthiness the borrowers and their ability to repay interest and principal of debt, and on correspondent limits modification (if necessary).

The Group's regulatory documents establish the following:

- procedures to review and approve loan/credit applications;
- methodology for the credit assessment of borrowers, counterparties, issuers and insurance companies;
- valuation approaches with regard to collateral offered;
- requirements to the credit documentation;
- procedures for the ongoing monitoring of loans and other credit exposures.

The corporate loan/credit application and appropriate project documents are reviewed by the Credit Department. In case of a positive decision, the set of documents from the Credit Department required for reviewing the loan/credit application shall be analyzed by the Legal Department, Risk Management Department, Security Department, Strategic Planning and Analysis Department, and Internal Control and Compliance Department. For the purpose of comprehensive analysis of the loan/credit application received from the Credit Department, the Legal Department and Risk Management Department jointly prepare Description of the Investment Transaction. The loan/credit application is subject to review by the Credit Committee based on the Description of the Investment Transaction, report of the Security Department and Strategic Planning and Analysis Department, report on risks of the Risk Management Department and compulsory judgment of the Legal Department in respect of the legal compliance of the proposed transaction. The procedure of making lending decisions comprises the following steps: Step 1 includes reviewing application by the Credit Committee; Step 2 includes making decision by the Management Board of the Bank (if such issue falls within its competence); Step 3 includes sending a set of respective documents approved by the Management Board of the Bank to the member countries in order to obtain the final approval from the country of origin of the borrower; Step 4 includes making decision by the Council of the Bank (if such issue falls within its competence).

Apart from individual customer analysis, the Risk Management Department assesses the whole loan portfolio with regard to credit concentration and market risks. Based on the Group's internal rating model to determine borrower's default probability and recovery estimates, the Group classifies all loans and other credit related products by the respective groups of risks.

(Thousands of Euros)

21. Risk management (continued)

Credit risk (continued)

The Group continuously monitors the quality of individual credit exposures and regularly reassesses the creditworthiness of its customers. The revaluation is based on the customer's most recent financial statements, past-due status, performance of its business plan and other information submitted by the borrower, or otherwise obtained by the Group. Based on this information, the borrower's internal credit rating (class of the loan) may be revised and, accordingly, the appropriate loan impairment provision may be created or changed.

Collateral and other credit enhancements

Credit risk is also managed by obtaining pledge of real estate, assets and securities, and other collateral, including corporate and personal guarantees, as well as monitoring availability and value of collateral.

As availability of collateral is important to mitigate credit risk, this factor is a priority for the Group when reviewing loan/credit applications if their terms and conditions are similar. To ensure recovery of its resources associated with conducting lending and project-financing transactions, the Group applies the following types of collateral for recovery of loans and fulfillment of obligations:

- pledge of equipment and goods in turnover;
- pledge of real property (mortgage) and title;
- pledge of rights of demand and construction.

Analysis of the Group's loan portfolio, net of impairment allowance, by types of collateral is provided in Note 9.

Collateral is not generally held over loans and deposits, except where securities are held as collateral in reverse repurchase agreements. Collateral is not required against exposures to securities.

Quality of the collateral provided is assessed by the following criteria: safety, adequacy and liquidity.

The Group assumes that the fair value of the collateral is its value estimate recognized by the Group to calculate the discounted impairment allowance based on its liquidity and possibility of selling such property in the event of borrower's default considering the time needed for such sale, litigation and other costs.

Current market value of the collateral, if necessary, is assessed by accredited appraisers or based on the Group's internal expert estimate, or carrying amount of the collateral including adjustment coefficient (discount). The Group's internal expert opinion on the fair value of the collateral and feasibility of the adjustment coefficient (discount), which adjusts the market value, shall be approved/ reconciled with the Risk Management Department. The adjustment coefficient (discount) is established based on the table of recommended discounts "Regulations on lending operations" as at initial measurement of the collateral value. Where the market value of the collateral is assessed as impaired, the clients are usually required to provide additional collateral.

Allowance for loan impairment

The Group creates allowance for loan impairment that represents its estimate of losses incurred in its loan portfolio. The Group writes off a loan balance against related allowances for loan losses only subject to the approval of the Council and where the loan is determined as uncollectible and when all necessary steps to collect the loan are completed. Such decision is made after consideration of the information on significant changes in the client's financial position such as inability to repay the loan, and when proceedings from disposal of the collateral are insufficient to cover the debt amount in full. Generally, overdue loans are written off when overdue more than five years or if the debtor is declared bankrupt.

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(Thousands of Euros)

21. Risk management (continued)

Credit risk (continued)

Maximum exposure to credit risk

Maximum credit risk exposure of the Group as related to financial assets is recorded in their carrying amount.

Credit risk for off balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same procedures and methodologies, as defined by the Group's credit policy, for approving credit related commitments (undrawn loan commitments, letters of credit and guarantees) as it does for on balance sheet credit obligations (loans). Maximum credit risk exposure by credit related commitment represents all the amount of these commitments (Note 16).

Concentration of credit risk

The Group monitors credit risk concentrations by industry and geographic location. Analysis of credit risk concentration by industry is presented in Note 9.

The table below shows information on credit risk geographical concentration as of 31 December 2012 and 2011:

	2012								
	Russian Federation	*Czech Republic*	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Republic of Cuba*	*Mongolia*	*Other countries*	*Total*
Assets									
Cash and cash equivalents	6,073	–	–	–	–	–	–	2,334	**8,407**
Deposits with banks and other financial institutions	37,962	–	15,033	–	10,018	–	18,759	10,035	**91,807**
Available-for-sale investment securities	46,934	15,078	3,326	10,915	12,267	–	1,168	8,033	**97,721**
Loans to customers	20,845	–	3,226	–	7,465	–	17,569	–	**49,105**
Other assets	1,217	–	–	–	–	22	–	–	**1,239**
Total	**113,031**	**15,078**	**21,585**	**10,915**	**29,750**	**22**	**37,496**	**20,402**	**248,279**

	2011								
	Russian Federation	*Czech Republic*	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Republic of Cuba*	*Mongolia*	*Other countries*	*Total*
Assets									
Cash and cash equivalents	611	9,503	3,023	–	–	–	–	764	**13,901**
Deposits with banks and other financial institutions	10,036	6,005	10,044	–	10,032	–	–	75,127	**111,244**
Available-for-sale investment securities	40,869	4,106	4,878	4,093	5,881	–	1,115	7,894	**68,836**
Held-to-maturity investment securities	423	–	–	–	–	–	–	–	**423**
Loans to customers	23,747	–	2,930	–	3,876	–	13,699	–	**44,252**
Other assets	1,427	–	–	–	–	22	–	2	**1,451**
Total	**77,113**	**19,614**	**20,875**	**4,093**	**19,789**	**22**	**14,814**	**83,787**	**240,107**

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

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

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

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

(Thousands of Euros)

21. Risk management (continued)

Credit risk (continued)

The following table provides information on the credit quality of the loans issued and included in the Group's loan portfolio as of 31 December 2012:

	Loan amount	*Impairment*	*Loan amount, including impairment*	*Impairment to loan amount ratio, %*
Loans without any signs of impairment identified				
Standard loans				
- *Mongolia*	11,586	–	11,586	–
- *Slovak Republic*	7,465	–	7,465	–
- *Republic of Bulgaria*	3,226	–	3,226	–
Impaired loans				
Loans not past due				
- *Russian Federation*	8,005	(933)	7,072	12
Loans overdue less than 30 days				
- *Mongolia*	10,864	(4,881)	5,983	45
Uncollectible loans				
- *Russian Federation*	81,869	(68,096)	13,773	83
- *Republic of Bulgaria*	2,927	(2,927)	–	100
- *Mongolia*	927	(927)	–	100
Total loans to customers	**126,869**	**(77,764)**	**49,105**	**61**

The following table provides information on the credit quality of the loans issued and included in the Group's loan portfolio as of 31 December 2011:

	Loan amount	*Impairment*	*Loan amount, including impairment*	*Impairment to loan amount ratio, %*
Loans without any signs of impairment identified				
Standard loans				
- *Mongolia*	7,314	–	7,314	–
- *Slovak Republic*	3,876	–	3,876	–
Impaired loans				
Loans not past due				
- *Russian Federation*	15,240	(1,535)	13,705	10
Loans overdue from 90 days to 1 year				
- *Russian Federation*	17,311	(9,045)	8,266	52
Uncollectible loans				
- *Russian Federation*	59,074	(57,298)	1,776	97
- *Mongolia*	11,911	(5,526)	6,385	46
- *Republic of Bulgaria*	2,930	–	2,930	–
Total loans to customers	**117,656**	**(73,404)**	**44,252**	**62**

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Renegotiated structured loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual impairment assessment, calculated using the loan’s original effective interest rate.

(Thousands of Euros)

21. Risk management (continued)

Liquidity risk

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

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

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

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

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

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

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

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

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

Due to the fact that all the Group's liabilities are short-term with maturity "on demand" or "less than 1 month", the Group does not estimate non-discounted cash flows since the expected cash outflow will not be significantly different from the carrying value of the Group's financial liabilities as of 31 December 2011 and 31 December 2010.

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(Thousands of Euros)

21. Risk management (continued)

Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities on the basis of the remaining period from the balance sheet date to the contractual maturity date (liquidity gap).

	2012							
	Less than 1 month	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Past due*	*Total*
Assets								
Cash and cash equivalents	8,407	–	–	–	–	–	–	**8,407**
Deposits with banks and other financial institutions	12,877	53,845	25,085	–	–	–	–	**91,807**
Available-for-sale investment securities	–	830	2,091	42,048	52,752	2,383	–	**100,104**
Loans to customers less allowance for impairment	–	1,026	7,100	10,573	10,650	–	19,756	**49,105**
Other assets	1,053	6	178	2	–	–	–	**1,239**
	22,337	**55,707**	**34,454**	**52,623**	**63,402**	**2,383**	**19,756**	**250,662**
Liabilities								
Due to banks and other financial institutions	3,788	–	–	–	–	–	–	**3,788**
Current customer accounts	2,396	–	–	–	–	–	–	**2,396**
Other liabilities	2,418	215	3,170	–	–	–	–	**5,803**
	8,602	**215**	**3,170**	**–**	**–**	**–**	**–**	**11,987**
Net position	**13,735**	**55,492**	**31,284**	**52,623**	**63,402**	**2,383**	**19,756**	**238,675**
Accumulated net position	**13,735**	**69,227**	**100,511**	**153,134**	**216,536**	**218,919**	**238,675**	

	2011							
	Less than 1 month	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Past due*	*Total*
Assets								
Cash and cash equivalents	8,899	5,002	–	–	–	–	–	**13,901**
Deposits with banks and other financial institutions	30,111	81,133	–	–	–	–	–	**111,244**
Available-for-sale investment securities	314	812	14,487	35,964	17,259	2,199	–	**71,035**
Held-to-maturity investment securities	20	–	403	–	–	–	–	**423**
Loans to customers less allowance for impairment	–	445	1,898	19,917	2,635	–	19,357	**44,252**
Other assets	588	173	690	–	–	–	–	**1,451**
	39,932	**87,565**	**17,478**	**55,881**	**19,894**	**2,199**	**19,357**	**242,306**
Liabilities								
Due to banks and other financial institutions	1	–	–	–	–	–	–	**1**
Current customer accounts	2,382	–	–	–	–	–	–	**2,382**
Other liabilities	2,067	196	3,510	–	–	–	–	**5,773**
	4,450	**196**	**3,510**	**–**	**–**	**–**	**–**	**8,156**
Net position	**35,482**	**87,369**	**13,968**	**55,881**	**19,894**	**2,199**	**19,357**	**234,150**
Accumulated net position	**35,482**	**122,851**	**136,819**	**192,700**	**212,594**	**214,793**	**234,150**	

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

	Less than 3 months	*3 to 12 months*	*Total*
2012	2,997	17,422	**20,419**
2011	14,139	10,000	**24,139**

(Thousands of Euros)

21. Risk management (continued)

Liquidity risk (continued)

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Market risk is the risk that the Group may incur losses due to adverse changes in the market situation expressed in changes in interest rates, exchange rates and value of equity instruments. Market risk is divided into interest rate, currency and equity risks. Market risk is connected to fluctuations on the three main economic markets: debt securities market, equities market, FX and commodities markets, which are subject to general and specific market movements.

The Board of the Bank performs overall management of market risk in line with the General Risk Management Policies approved by the Bank's Council.

ALCO, led by the Deputy Chairman of the Bank's Management Board, coordinates the Group's market risk management policy, considers and provides to the Management Board recommendations on management of market risks, as well as assets and liabilities.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk. In stressed market conditions caused by the global economic crisis these activities on market risk management shall be hardened.

Therefore, the regulatory base is enhanced, including setting new stop-out and stop-loss limits and sublimits, subject to positions taken and the limit of overall portfolio losses.

The market risk is mainly managed through daily reassessment of market price positions; optimization of the maturities and raising funds ensuring a stable interest margin; hedging changes in foreign currency position through use of derivative instruments; setting and complying with respective limits which restrict exposure to equity, interest and currency risks.

Currency risk

Foreign currency risk is the risk of loss resulting from adverse changes in exchange rates with respect to the Group's open positions in foreign currencies.

The currency risk is analyzed through regular estimation of the open currency position with breakdown by currencies and certain balance sheet positions with consideration of maturities/terms of borrowings denominated in foreign currencies.

The currency risk is monitored through regular preparation of analytical materials related to currency and finance markets of the countries of placements and borrowings, which includes required information on quotes, interest rates, exchange rates and trends of their movements.

If necessary, the Group makes adjustments to the asset and liability currency structure to minimize the currency risk. The currency risk is managed through:

- establishing of and compliance with the limits of two levels, including limits of the open currency position and limits for currency operations performed by officials and business units of the Group (operational limits).

The table below indicates the currencies to which the Group had significant exposure at 31 December 2012 and 31 December 2011 on its non-trading monetary assets and liabilities and its projected cash flows. The analysis calculates the effect of a reasonably possible change of the currency rate against the euro on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on the equity does not differ from the effect on the income statement. All other variables are held constant. A negative amount in the table reflects a potential net reduction in the income statement or equity, while a positive amount reflects a net potential increase.

Currency	*Change in currency rate in % 2012*	*Effect on profit 2012*	*Change in currency rate in % 2011*	*Effect on profit 2011*
RUB	+10/-10	1,749/(1,431)	+12/-12	1,412/(1,110)
USD	+11/-11	1,925/(2,401)	+13/-13	527/(406)

(Thousands of Euros)

21. Risk management (continued)

Currency risk (continued)

The Group's exposure to currency risk is presented below:

	2012					*2011*				
	EUR	*USD*	*RUB*	*Other currencies*	*Total*	*EUR*	*USD*	*RUB*	*Other currencies*	*Total*
Assets										
Cash and cash equivalents	1,010	1,321	5,944	132	**8,407**	13,062	253	575	11	**13,901**
Deposits with banks and other financial institutions	91,807	–	–	–	**91,807**	111,244	–	–	–	**111,244**
Available-for-sale investment securities	77,961	22,143	–	–	**100,104**	57,345	3,314	10,376	–	**71,035**
Held-to-maturity investment securities	–	–	–	–	**–**	–	423	–	–	**423**
Loans to customers less allowance for impairment	49,105	–	–	–	**49,105**	44,252	–	–	–	**44,252**
Other assets	332	173	734	–	**1,239**	245	43	1,163	–	**1,451**
	220,215	**23,637**	**6,678**	**132**	**250,662**	**226,148**	**4,033**	**12,114**	**11**	**242,306**
Liabilities										
Due to banks and other financial institutions	–	3,788	–	–	**3,788**	–	1	–	–	**1**
Current customer accounts	2,247	149	–	–	**2,396**	2,182	200	–	–	**2,382**
Other liabilities	2,033	275	3,495	–	**5,803**	1,801	305	3,667	–	**5,773**
	4,280	**4,212**	**3,495**	**–**	**11,987**	**3,983**	**506**	**3,667**	**–**	**8,156**
Net balance sheet position	**215,935**	**19,425**	**3,182**	**132**	**238,674**	**222,165**	**3,527**	**8,447**	**11**	**234,150**

Interest rate risk

The interest rate risk is the risk of financial losses due to adverse changes in the interest rates of the Group's assets, liabilities and off-balance sheet instruments.

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates in its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise. The Management Board is responsible for overall management of the Group's assets and liabilities. Due to insignificant amount of borrowings, currently the effect of the interest rate risk is not material.

The Group performs sensitivity analysis of equity using the interest rate gap method for the purpose of controlling financial losses arising from unfavorable changes in interest rates. The interest rate gap method is used to assess changes in equity by using data on mismatch of claims and obligations sensitive to interest rate changes aggregated at given maturity intervals.

The sensitivity of equity (as a result of change in fair value of available-for-sale equity instruments with fixed rates as at 31 December 2012 and 31 December 2011) due to a reasonably possible change in equity indices is presented below. The effect of revaluation of financial assets was calculated based on the assumption that there are parallel shifts in the yield curve.

Country	*Currency*	*Market index*	*Index change 2012*	*Effect on equity 2012*	*Index change 2011*	*Effect on equity 2011*
EU	EUR	Ger Gov	+0.3%/-0.1%	1,118/(235)	+0.4%/-0.1%	824/(206)
USA	USD	US Treas	+0.5%/-0.2%	452/(175)	+0.6%/-0.2%	11/(4)
Russia	RUB	OFZ	–/–	–/–	+5.5%/-2.0%	1,189/(432)

Equity risk

Equity risk is the risk of losses due to adverse changes in the market prices for equity instruments (securities) and derivatives that were acquired by the Group, caused by factors related both to issuers and overall fluctuations in the equity market.

(Thousands of Euros)

21. Risk management (continued)

Equity risk (continued)

The equity risk is managed through strict compliance with the established limits. To minimize the equity risk, in the course of its activity the Group may establish the following limits: limit on overall securities portfolio; limit on non-investment grade securities; maximum limit on trading and investment securities portfolio; limit on combined financial instruments portfolio; industry limits; limits by counterparty and issuer; stop-out and stop-loss limits and sublimits on the overall portfolio and individual portfolios. The equity risk is also minimized by hedging changes in the market value of securities through use of derivatives, as well as by using the delivery-versus-payment principle in settlements under securities transactions.

The effect on equity (as a result of change in fair value of equity instruments recognized as available for sale as at 31 December 2012 and 31 December 2011) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market index	*Index change 2012*	*Effect on equity 2012*	*Index change 2011*	*Effect on equity 2011*
Index S&P 500	+18	552	+30	456
Index S&P 500	-18	(552)	-30	(456)

Business risks

The Group's business risks include strategic, legal and reputation risks.

Strategic risk is a risk of losses which the Group may incur as result of mistakes in making decisions, defining the Group's business and development strategy, and is expressed in the following:

- Inadequate accounting for potential threats to the Group's operation;
- Incorrect or insufficiently reasoned definition of perspective business areas;
- Lack or insufficient resources required (financial, material and technical, human resources) and organizational activities (management decisions).

Legal risk is a risk of losses which the Group may incur due to:

- The Group's non-compliance with the legislation and other regulations of the country of residence and country of placement of funds, and agreements entered into;
- Lack of diligence and due care exercised by the Group's lawyers in the course of preparation of contractual documents failing to provide full protection of the Group's interests;
- Misconduct of counterparties to the agreements entered into;
- Untimely or unqualified protection of the Group's interest in court;
- Untimely or unqualified preparation and codification of the Group's regulations, including those related to risk management.

Risk of the Group's business reputation loss (reputation risk) is a risk of loss arising from deterioration of the public opinion related to the Group's financial stability, quality of its services and nature of its business in general resulting in loss of clients (counterparties).

The Group has developed special procedures and takes measures to minimize adverse effect of business risks for the Group.

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(Thousands of Euros)

22. Fair values of financial instruments

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

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

Deposits with banks and other financial institutions and cash and cash equivalents. Management has estimated that at 31 December 2012 and 31 December 2011 the fair value of deposits with banks and other financial institutions and cash and cash equivalents was not materially different from their respective carrying amount. This is due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

Loans to customers. Management has estimated that at 31 December 2012 and 31 December 2011 the fair values of loans to customers were not materially different from their respective carrying amounts. Fair values of loans to customers were calculated based on the respective market interest rates at 31 December 2012 and 31 December 2011.

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

	Carrying amount 2012	*Fair value 2012*	*Unrecognized gain/(loss) 2012*	*Carrying amount 2011*	*Fair value 2011*	*Unrecognized gain/(loss) 2011*
Financial assets						
Cash and cash equivalents	8,407	8,407	–	13,901	13,901	–
Deposits with banks and other financial institutions	91,807	91,807	–	111,244	111,244	–
Investment securities held-to-maturity	–	–	–	423	363	(60)
Loans to customers	49,105	48,037	(1,068)	44,252	44,252	–
Financial liabilities						
Due to banks and other financial institutions	3,788	3,788	–	1	1	–
Current customer accounts	2,396	2,396	–	2,382	2,382	–
Total unrecognized change in unrealized fair value			**(1,068)**			**(60)**

The following describes the methodologies and assumptions used to determine fair values of those financial instruments which are not already recorded at fair value in the financial statements.

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost is estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing loans and deposits with banks is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

(Thousands of Euros)

22. Fair values of financial instruments (continued)

Financial instruments recorded at fair value

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

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

	Level 1 2012	*Level 2 2012*	*Level 3 2012*	*Total 2012*
Financial assets				
Available-for-sale investment securities	98,936	1,168	–	**100,104**

	Level 1 2011	*Level 2 2011*	*Level 3 2011*	*Total 2011*
Financial assets				
Available-for-sale investment securities	71,035	–	–	**71,035**

23. Related party disclosures

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

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

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for 2012 and 2011 are as follows:

		2012		*2011*	
	Related party	*Carrying amount*	*Average interest rate, %*	*Carrying amount*	*Average interest rate, %*
Balance sheet					
Current customer accounts	Key management personnel	75	1.5	149	1.0

		2012	*2011*
	Related party	*Income/ (expense)*	*Income/ (expense)*
Income statement			
Interest expense on current customer accounts	Key management personnel	(6)	(5)
Employee benefits	Key management personnel	(744)	(670)
Compensation for travel expenses and medical insurance	Key management personnel	(106)	(51)
		(856)	**(726)**

24. Capital adequacy

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

The Basel Committee on Banking Regulations recommends maintaining the ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 31 December 2012, this minimum level was 8% (2011: 8%).

Taking into account the Bank's status, the structure of the Bank's member countries and respective decision of the Council, the Group maintains the capital adequacy ratio at the level not less than 25% as of 31 December 2012 (2011: 25%).

Therefore, the Group monitors the capital adequacy ratio, computed in accordance with the Basel Capital Accord (commonly known as Basel I) as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007).

The following table shows the composition of the Group’s capital position computed in accordance with the Basel Accord, as of 31 December 2012 and 2011.

	31 December 2012	*31 December 2011*
Tier 1 capital		
Paid-in capital	165,248	214,495
Retained earnings	152,126	100,623
Total tier 1 capital	**317,374**	**315,118**
Tier 2 capital		
Revaluation reserve for available-for-sale investment securities	4,340	(2,351)
Revaluation reserve for property and equipment	33,375	31,091
Total tier 2 capital	**37,715**	**28,740**
Total regulatory capital	**355,089**	**343,858**
Risk-weighted assets:		
Banking book	186,778	172,857
Trading book	114,127	51,757
Total risk-weighted assets	**300,905**	**224,614**
Total capital expressed as a percentage of risk-weighted assets, % ("capital adequacy ratio")	**118.01%**	**153.09%**
Total tier 1 capital expressed as a percentage of risk-weighted assets, % ("tier 1 capital ratio")	**105.47%**	**140.29%**

25. Discontinued operations

On 24 June 2011, the Bank purchased a 100% interest in LLC StroyProektInvest as part of bad debt workout. LLC StroyProektInvest is a limited liability company operating in accordance with the laws and regulations of the Russian Federation. The company is principally engaged in engineering works.

Management of the Group had an intention to sell its share in LLC StroyProektInvest within one year after purchase; therefore, the identifiable assets and liabilities of the subsidiary were classified as disposed operation and on acquisition were recognized at the lower of their fair value and carrying amount.

(Thousands of Euros)

25. Discontinued operations (continued)

The carrying amount and the fair value of identifiable assets and liabilities acquired and the effect of excess of net assets over the acquisition cost as of the date of purchase were as follows:

The carrying amount and the fair value of identifiable assets and liabilities acquired and the effect of excess of net assets over the acquisition cost as of the date of purchase were as follows:

	Fair value at the date of acquisition	*Carrying amount at the date of acquisition*
Assets	12,236	10,078
Liabilities	2,772	5,211
Total identifiable net assets		**7,306**
Effect of the excess of net assets over the cost of acquisition		(2,648)
Compensation transferred upon acquisition of control		**4,658**

As of the date of acquisition, the Bank recognized in its financial statements a loan issued to LLC StroyProektInvest. LLC StroyProektInvest recognized the loan totaling EUR 8,534 thousand in amounts due to credit institution. The fair value of the above liabilities of LLC StroyProektInvest approximated EUR 4,658 thousand. These transactions are represented by the relations between the Group entities, which were established before and eliminated in the process of accounting for the business combination. The loan raised was eliminated from the identifiable liabilities of LLC StroyProektInvest. The compensation transferred upon acquisition was increased by the fair value of these liabilities.

In February 2012, the Group sold its 100% interest in LLC StroyProektInvest to independent purchasers for EUR 0.25 thousand paid in cash and amount of the loan with fair value of EUR 6,707 thousand. The excess of the current carrying amount of liabilities less current carrying amount of assets of LLC StroyProektInvest over the compensation paid in cash and the fair value of newly recognized loan amounted to EUR 640 thousand as of the acquisition date. This excess was recognized in the consolidated income statement as a result of discontinued operation.

	Carrying value as of the disposal date
Assets	10,121
Liabilities	2,774
Total net assets	**7,347**
Compensation received upon disposal of control	(6,707)
Loss from discontinued operations after income tax	**640**

International Investment Bank

Consolidated financial statements

Year ended 31 December 2013
Together with Independent Auditors' Report

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Совершенствуя бизнес, улучшаем мир

CJSC Ernst & Young Vneshaudit
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ЗАО «Эрнст энд Янг Внешаудит»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 00139790

Independent auditors' report

To the Council of the International Investment Bank

We have audited the accompanying consolidated financial statements of the International Investment Bank (hereinafter the "Bank") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

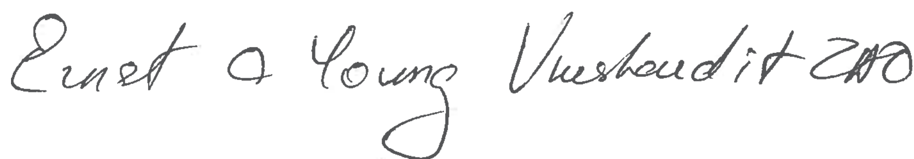
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



31 March 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

(Thousands of Euros)

	Note	*31 December 2013*	*31 December 2012*
Assets			
Cash and cash equivalents	5	20,045	8,407
Deposits with banks and other financial institutions	6	41,490	91,807
Financial assets at fair value through profit or loss	7	151	–
Available-for-sale investment securities	8	129,876	100,104
Held-to-maturity investment securities	9	5,910	–
Long-term loans to banks	10	58,795	–
Loans to customers	11	37,625	49,105
Assets held for sale	12	–	10,744
Inventories – real estate objects	13	4,929	–
Investment property	14	53,480	52,409
Property and equipment	15	50,000	51,449
Other assets	16	8,811	3,051
Total assets		**411,112**	**367,076**
Liabilities			
Due to banks and other financial institutions	17	49,586	3,788
Current customer accounts		3,313	2,396
Other liabilities	16	5,841	5,803
Total liabilities		**58,740**	**11,987**
Equity	18		
Subscribed capital		1,300,000	1,300,000
Callable capital		(1,058,685)	(1,134,752)
Paid-in capital		**241,315**	**165,248**
Revaluation reserve for available-for-sale investment securities	18	214	4,340
Revaluation reserve for property and equipment		33,375	33,375
Foreign currency translation reserve		(1,219)	–
Retained earnings less net income for the year		76,059	149,870
Net income for the year		2,628	2,256
Total equity		**352,372**	**355,089**
Total equity and liabilities		**411,112**	**367,076**

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

Nikolay Kosov — Chairman of the Board

Eugeny Atanassov — Managing Director of the Financial Department

31 March 2014

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

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2013

(Thousands of Euros)

	Note	*2013*	*2012*
Financial result from continuing operations			
Interest income	21	13,353	8,690
Interest expenses	21	(432)	(32)
Net interest income		**12,921**	**8,658**
(Allowance) for impairment of loans to customers	11	(10,105)	(4,782)
Net interest income/(expense) after allowance for loan impairment		**2,816**	**3,876**
Fee and commission income		114	238
Fee and commission expense		(72)	(68)
Net fee and commission income		**42**	**170**
Net (losses)/gains from foreign currencies	22	(2,682)	724
Net gains from available-for-sale investment securities	18	5,659	3,727
Income from lease of investment property	14	7,959	7,331
Net (losses)/gains from impairment/disposal of assets held for sale	12	(3,588)	75
Income from revaluation of investment property		–	1,615
Dividend income		362	182
Revenues from sales of inventory	13	3,727	–
Other income	23	10,763	201
Net non-interest income		**22,200**	**13,855**
Operating income		**25,058**	**17,901**
Allowance for impairment of other assets		(152)	(161)
General and administrative expenses	24	(16,751)	(13,503)
Cost of inventories sold	13	(3,346)	–
Other operating expenses		(2,181)	(1,343)
Operating expenses		**(22,430)**	**(15,007)**
Income from continuing operations before income tax benefit		**2,628**	**2,894**
Income tax benefit		–	2
Income from continuous operations after income tax		**2,628**	**2,896**
Loss from discontinued operations after income tax	31	–	**(640)**
Net income for the year		**2,628**	**2,256**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

(Thousands of Euros)

	Note	*2013*	*2012*
Net income for the year		**2,628**	**2,256**
Other comprehensive income/(loss)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Net unrealized (losses)/gains on available-for-sale investment securities		(4,126)	6,691
Translation differences		(1,219)	(70)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**(5,345)**	**6,621**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of property and equipment	15	–	2,284
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**–**	**2,284**
Other comprehensive income/(loss)		**(5,345)**	**8,905**
Total comprehensive income for the year		**(2,717)**	**11,161**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

(Thousands of Euros)

	Subscribed capital	*Callable capital*	*Revaluation reserve for available-for-sale investment securities*	*Revaluation reserve for property and equipment*	*Foreign currency translation reserve*	*Retained earnings*	*Total equity*
At 31 December 2011	**1,300,000**	**(1,085,505)**	**(2,351)**	**31,091**	**70**	**100,623**	**343,928**
Profit for the year	–	–	–	–	–	2,256	**2,256**
Other comprehensive income for the year	–	–	6,691	2,284	(70)	–	**8,905**
Total comprehensive income	**–**	**–**	**6,691**	**2,284**	**(70)**	**2,256**	**11,161**
Withdrawal of the member countries (Note 18)	–	(49,247)	–	–	–	49,247	–
At 31 December 2012	**1,300,000**	**(1,134,752)**	**4,340**	**33,375**	–	**152,126**	**355,089**
Profit for the year	–	–	–	–	–	2,628	**2,628**
Other comprehensive income for the year	–	–	(4,126)	–	(1,219)	–	**(5,345)**
Subscribed capital withdrawal (Note 18)	–	76,067	–	–	–	(76,067)	–
At 31 December 2013	**1,300,000**	**(1,058,685)**	**214**	**33,375**	**(1,219)**	**78,687**	**352,372**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

(Thousands of Euros)

	Note	*2013*	*2012*
Cash flows from operating activities			
Interest, fees and commissions received from deposits and long-term loans to banks and other financial institutions, and loans to customers		7,144	3,146
Interest, fees and commissions paid		(447)	(96)
Net receipts/(payments) from trading with foreign currencies		56	(160)
Cash flows from lease of investment property		7,959	7,331
Income from disposal of assets held for sale		–	75
General and administrative expenses		(15,932)	(11,350)
Other operating expenses		(585)	(1,347)
Cash flows from operating activities before changes in operating assets and liabilities		**(1,805)**	**(2,401)**
Net (increase)/decrease in operating assets			
Deposits with banks and other financial institutions		50,129	19,893
Long-term loans to banks		(58,787)	–
Loans to customers		7,406	(10,803)
Inventories – real estate objects		(4,205)	
Assets held for sale		5,985	–
Other assets		(110)	554
Net increase/(decrease) in operating liabilities			
Due to banks and other financial institutions		46,208	3,819
Current customer accounts		921	17
Other liabilities		17	(40)
Net cash flows from operating activities		**45,759**	**11,039**
Cash flows from investing activities			
Purchase of available-for-sale investment securities		(187,058)	(153,836)
Proceeds from sale and redemption of investment securities		161,660	138,776
Purchase of held-to-maturity investment securities		(5,958)	–
Investment in investment property	14	(43)	(507)
Acquisition of property and equipment	15	(791)	(982)
Net cash flows from investing activities		**(32,190)**	**(16,549)**
Effect of exchange rate changes on cash and cash equivalents		(1,931)	16
Net increase/(decrease) in cash and cash equivalents		**11,638**	**(5,494)**
Cash and cash equivalents, beginning		**8,407**	**13,901**
Cash and cash equivalents, ending	5	**20,045**	**8,407**

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

(Thousands of Euros)

1. Principal activities

These consolidated financial statements include the financial statements of the International Investment Bank (the "Bank") and its subsidiaries. The Bank and its subsidiaries are hereinafter referred together as the "Group". The International Investment Bank is the parent company of the Group. The list of the Bank's subsidiaries is presented in Note 2.

The Bank was founded in 1970, has operated since 1 January 1971 and is an international institution operating on the basis of the Intergovernmental Agreement on the Establishment of the International Investment Bank (the "Agreement") and the Statutes. The Agreement was ratified by the member countries of the Bank and registered with the Secretariat of the United Nations in December 1971. The Bank is primarily engaged in commercial lending for the benefit of national investment projects in the member countries of the Bank and for other purposes defined by the Council of the Bank. The Bank also performs transactions with securities and foreign currency. The Bank operates from its office at 7 Mashi Poryvaevoi St., Moscow, Russia.

The Group had an average of 166 staff employees during 2013 (2012: 148).

In 2013, activities of the Group was focused on implementation of the IIB Relaunch Program, which was unanimously approved at the 98th meeting of the Bank's Council in November 2012 and designed to transform the Bank into a full-service multilateral development institution. IIB consistently implemented its mandate, under which the Bank supports SMEs and socially important projects in member countries. The results of this work confirm the achievement of key strategic goals set by the Group as a part of "optimistic" scenario for the expired year. Key developments are as follows:

- Creation of a qualitatively new loan portfolio under new principles of credit policy: focus on offering credit products with a low risk level, reduction of share of direct lending to ultimate borrowers and refocus to lending via partner banks (providing special purpose credit facilities for the development of the SME sector in the member countries, participating in syndicated lending), extension of geographical diversification of investments;
- Fulfillment of the old loan portfolio rehabilitation program;
- Alignment of the majority of internal regulations with best practices of modern international development institutions (credit policy, strategic and current planning), introduction of a new system of risk management consistent with recommendations of the Basel Committee on Banking Supervision, operation of a full-service compliance control;
- Completion of preparations for a transit to a new organizational structure (with division on front, middle and back office) and employee motivation system consistent with best practices of leading multilateral development banks;
- Strategic focus on the development of partnership relations and IIB's brand recognition. Conclusion of 20 agreements on cooperation with leading financial institutions of member countries (agreements with VEB Group came into practical effect (including OJSC SME Bank, OJSC Russian Agency for Export Credit and Investment Insurance, CJSC State Specialized Russian Export-Import Bank), as well as with several major Vietnamese and Mongolian banks). The following leading development banks invite the Bank to participate in syndicated lending: IFC (International Financial Corporation, 2 syndicates), EBRD (European Bank for Reconstruction and Development, 1 syndicate), the Netherlands Development Finance Company (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V., 1 syndicate). As a matter of fact, IIB is starting to be a catalyst for investments. Official accession of the Bank to the Master Cooperation Agreement with IFC on 31 January 2014 means IIB joins 19 leading development institutions and gets an opportunity to participate in syndicated lending projects on a regular basis. The Bank works on practical directions of cooperation with such financial institutions as European Investment Bank, KfW, The Black Sea Trade and Development Bank;
- Completion of a long-term process on settlement of debt of the Republic of Cuba to IIB. The Board and delegations of member countries did considerable work to find mutually acceptable solutions to the Cuban issue. The result of this work is the Agreement on debt restructuring signed by the Bank and the Cuban government, which does not affect the Bank's composition;
- The 99th meeting of the Bank's Council (Bratislava, 6 June 2013) led to a decision on capitalization of the Bank in the amount of EUR 176 million, of which EUR 100 million are additional contributions of member countries.

(Thousands of Euros)

1. Principal activities (continued)

The favorable trend of development and reforming IIB, as well as the support from member countries, helped the Bank to receive an international credit rating of investment level from Fitch Ratings in 2013 (long-term issuer default rating at BBB- with a stable outlook and short-term issuer default rating at F3).

The first rating of this level gives the Bank an opportunity to start shaping a qualitatively new financial agenda through fulfillment of a key task, which is a significant accumulation of assets and diversification of a resource base through using a wide range of funding sources, including syndicated loans, bonded loans and other instruments.

Therefore, the stage of IIB's active reforming under the Development strategy was practically finished in 2013, the Bank acquired self-identification, created conditions for increasing confidence in the Bank, which facilitate broadening its activities both in member countries and multilateral framework.

Member countries of the Bank

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

Member countries	*2013* *%*	*2012* *%*
Russian Federation	58.026	58.026
Czech Republic	12.587	12.587
Republic of Bulgaria	12.365	12.365
Romania	7.647	7.647
Slovak Republic	6.294	6.294
Republic of Cuba	2.222	2.222
Mongolia	0.435	0.435
Socialist Republic of Vietnam	0.424	0.424
	100.000	**100.000**

In accordance with the Agreement, each member country of the Bank may withdraw from membership upon notice to the Council of the Bank at least six months in advance. In this case the Bank must settle all obligations to the relevant member country.

The member countries of the Bank may vote at the meetings of the Council and each member country has one vote regardless of the size of its contribution to the Bank's capital.

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

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

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

Business environment in the member countries

The member countries have experienced political and economic change, which has affected, and may continue to affect, the activities of enterprises operating in these countries. Consequently, operations in some member countries involve risks, which do not typically exist in developed markets.

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

(Thousands of Euros)

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), approved by the International Accounting Standards Board.

Subsidiaries

The Bank is a parent company of the Group, which owns CJSC IIB Capital (a 100% subsidiary established in 2012) as at 31 December 2013. The share capital of the subsidiary at its establishment amounted to RUB 10 thousand (EUR 250). In 2013, the Bank made an additional contribution to the share capital of the subsidiary in the amount of EUR 11,161 thousand.

On 17 February 2012, the Bank sold a 100% interest in the share capital of LLC StroyProektInvest.

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention with the exception of the financial instruments under fair value convention, the changes of which are translated through profit or loss account for the period, available-for-sale financial instruments also stated at fair value, and buildings and investment property are stated at revalued amounts.

Preparation and presentation of financial statements

The financial year of the Group begins on 1 January and ends on 31 December.

Functional and presentation currency

In accordance with the Statutes of the Bank, the management has determined the Group's functional and presentation currency to be the Euro ("EUR") 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. The functional currency of the Group's subsidiary is Russian ruble.

These consolidated financial statements are presented in thousands of Euros ("Thousands of Euros" or "EUR thousand"), unless otherwise indicated.

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(Thousands of Euros)

3. Summary of accounting policies

Changes in accounting policies

The Group has adopted the following amended IFRS during the year:

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidated financial statements of the Bank.

IFRS 13 Fair Value Measurement

IFRS 13 *Fair Value Measurement* establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Bank.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j), thereby affecting the interim condensed consolidated financial statements. The Group provided these disclosures in Note 26.

Amendments to IAS 19 Employee Benefits

The IASB has published amendments to IAS 19 *Employee Benefits*, effective for annual periods beginning on or after 1 January 2013, which involve major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset (liability) recognized in profit or loss to net interest income (expense) and service costs. These amendments had no impact on the Group's financial position.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. The Group does not have subsidiaries with non-controlling interests as well as unconsolidated structured entities.

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance.

IAS 1 Clarification of the Requirement for Comparative Information (amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments affect presentation only and have no impact on the Group's financial position or performance.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments had no impact on the Group's financial position or performance. The new disclosures are presented in Note 28.

Foreign currency transactions

The consolidated financial statements are presented in Euro, which is the Bank's functional and presentation currency. Every currency except Euro is considered foreign currency. Transactions in foreign currencies are initially translated in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated income statement as "Net gains/(losses) from foreign currencies". Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Group's exchange rate on the date of the transaction are included in "Net gains/(losses) from dealing in foreign currencies".

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights (interest), or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognized at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognized in the consolidated income statement, and its share of movements in reserves is recognized in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealized gains on transactions between Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents include cash on hand and amounts due from banks and other financial institutions, including reverse repurchase agreements, which mature within ninety days from the origination date and are free from contractual encumbrances.

Fair value measurement

The Group measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property and buildings (within property and equipment), at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 26.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Financial assets (continued)

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognized in profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in profit or loss when the investments are impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognized in profit or loss.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as cash equivalents, amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the separate statement of financial position. Securities borrowed are not recorded in the separate statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the separate income statement. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards and swaps in the foreign exchange market. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as net (losses)/gains from foreign currencies dealing.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair on the trading portfolio with changes in fair value recognized in profit or loss.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the borrowings are derecognized as well as through the amortization process.

Leases

Operating – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into general and administrative expenses.

Operating − Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the consolidated income statement over the lease term within net non-interest income on "Income from lease of investment property". The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Leases (continued)

Measurement of financial instruments at initial recognition

When financial instruments are recognized initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Group recognizes the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognizes that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that may be related to defaults.

Short-term and long-term amounts due from banks and other credit institutions and loans to customers

For amounts due from banks and other credit institutions and loans to customers carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss exists, the amount of the loss is measured as the difference between the assets' value in the consolidated statement of financial position and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The value of the asset in the consolidated statement of financial position is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount of asset based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If amounts previously written off are later recovered, the recovery is credited to the consolidated income statement.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a financial asset is provided at a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude).

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the consolidated income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Group determines at each reporting date whether there is objective evidence that an instrument or a group of instruments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its acquisition cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition coast and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement – is reclassified from other comprehensive income to the consolidated income statement. Impairment losses on equity investments are not reversed through the separate income statement; increases in their fair value after impairment are recognized in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed through the consolidated income statements.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognized and the new loan is recognized in the consolidated statement of financial position.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Group uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Group recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in the consolidated statement of financial position where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Property and equipment

Property and equipment are carried in the consolidated financial statements at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment, excluding buildings carried at revalued cost, as described below. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations of buildings are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the consolidated income statement, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of property and equipment (including self-constructed property and equipment) begins when it is available for use and is recognized in the consolidated income statement.

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	85
Equipment	3-7
Computers	3-6
Office furniture	5-10
Motor vehicles	4

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses, unless they qualify for capitalization.

Investment property

Investment property is a part of building held to earn rental income or for capital appreciation and which is not used by the Group or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Investment property (continued)

Subsequent expenditure is subject to capitalization only when it is probable that future economic benefits associated with an asset will flow to the Group and it can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to buildings, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Intangible assets

Intangible assets include computer software.

Intangible assets acquired by the Group are recognized in the consolidated financial statements at their acquisition cost.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 3 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Assets classified as held for sale

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

The sale qualifies as highly probable if the Group's management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

The Group measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of the asset to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Equity

In accordance with amendments to IAS 32, *Financial Instruments: Presentation*, and IAS 1, *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*, that were issued in February 2008, participants' shares are recognized in equity and not in liabilities.

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed in the consolidated financial statements, when an inflow of economic benefits is probable.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized in the consolidated financial statements:

Interest and similar income and expense

For all financial instruments measured at amortized cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and credit and deposit fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

- *Other fee and commission income*

Fees earned for the provision of transaction services are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Fee and commission expense

Fee and commission expenses comprise commissions on securities transactions and commissions on cash settlement transactions. Commissions paid on purchase of securities classified as financial instruments at fair value through profit or loss are recognized in the consolidated income statement at the purchase date. Commissions paid on all other purchases of securities are recognized as an adjustment to the carrying amount of the instrument with corresponding adjustment to its effective yield.

Dividend income

Revenue is recognized when the Group's right to receive the payment is established.

Segment reporting

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

(Thousands of Euros)

3. Summary of accounting policies (continued)

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects two of the three phases of the IASB project on replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities and hedge accounting. The standard has no mandatory effective date and may be applied voluntarily. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect when the remaining part of the standard containing guidance on impairment of financial assets is issued.

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

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment shall not be relevant to the Group, since none of the entities in the Bank are qualified to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities − Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs.

For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have a material impact on its consolidated financial statements.

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

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

4. Significant accounting judgments and estimates

Assumptions and estimation uncertainty

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

(Thousands of Euros)

4. Significant accounting judgments and estimates (continued)

Assumptions and estimation uncertainty (continued)

Allowance for impairment of loans and other financial assets carried at amortized cost

Financial assets are recorded in the Group's consolidated statement of financial position less allowances for impairment. The Group regularly reviews its financial assets to assess impairment. When assessing impairment losses, the Group uses its professional judgment in relation to objective evidences that future contractual cash flows on financial asset shall decrease. These evidences may include information on financial difficulties of the borrower or other observable data on adverse changes in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. The Group uses its professional judgment to adjust observable data for financial assets to reflect current circumstances. Impairment loss may be reversed only if a subsequent increase of estimated contractual cash flows can be objectively related to an event occurring after the impairment loss was recognized.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 26.

Impairment of available-for-sale equity securities

The Group determines that available-for-sale equity investment securities are impaired when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates, among other factors, the volatility of share prices. In addition, impairment may take place when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operating or financing cash flows.

Fair values of buildings and investment property

As disclosed in Note 3, the Group applies the fair value model with regard to buildings and investment property.

As for buildings within property and equipment, the Group monitors the compliance of the present value of buildings with their fair value and performs revaluation to ensure that there are no significant differences. Changes in the fair value are recognized in other comprehensive income. The most recent revaluation of the Group's building was carried out as at 26 December 2012 by an independent firm of professional appraisers applying an appropriate valuation methodology and information on transactions with similar real estate objects on the local market. However, valuation results based on the above valuation method may differ from the prices of actual transactions on the real estate market. Starting from 26 December 2012, the revalued building is depreciated in accordance with the remaining useful life.

As for investment property, the Group monitors changes in its fair value at each reporting date to ensure that the present value of investment property does not differ materially from its fair value. Changes in the fair value of investment property are recognized in the consolidated income statement. The most recent revaluation of the Group's investment property was carried out as at 26 December 2012 by an independent firm of professional appraisers applying an appropriate valuation methodology and information on transactions with similar real estate objects on the local market. However, valuation results based on the above valuation method may differ from the prices of actual transactions on the real estate market. The Group believes that as at 31 December 2013, the fair value of investment property did not change significantly.

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

- Note 7 – Financial liabilities at fair value through profit or loss
- Note 8 – Available-for-sale investment securities
- Note 10 – Long-term loans to banks
- Note 11 – Loans to customers
- Note 13 – Inventories – real estate objects
- Note 14 – Investment property
- Note 15 – Property and equipment
- Note 19 – Contingencies and lending commitments.

(Thousands of Euros)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2013	*2012*
Cash on hand	**970**	**103**
Nostro accounts with banks and other financial institutions		
Credit rating AAA	2,148	820
Credit rating from A− to A+	838	1,513
Credit rating from BBB− to BBB+	198	51
No credit rating	–	4
Total Nostro accounts with banks and other financial institutions	**3,184**	**2,388**
Short-term deposits with banks:		
Term deposits with banks		
Credit rating from A− to A+	6,500	–
Credit rating from BBB− to BBB+	4,272	5,916
Total short-term deposits with banks	**10,772**	**5,916**
Collateral on credit transactions with banks		
No credit rating	5,119	–
Cash and cash equivalents	**20,045**	**8,407**

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

In December 2013, the Mongolian customer with no credit rating was provided a long-term mortgage loan (Note 11). The surety bank placed a short-term interest-free collateral deposit with IIB prior to the mortgage registration in Mongolia (Note 17). The deposit in the amount of EUR 5,119 thousand is placed by the Bank on the correspondent account of the surety bank.

6. Deposits with banks and other financial institutions

Deposits with banks and other financial institutions comprise:

	2013	*2012*
Term deposits with banks up to 1 year		
Credit rating from A- to A+	–	10,017
Credit rating from BBB- to BBB+	–	25,069
Credit rating from BB- to BB+	1,028	25,085
Credit rating B+	40,462	18,759
No credit rating	–	12,877
Deposits with banks and other financial institutions	**41,490**	**91,807**

Amounts due from the National Bank of the Republic of Cuba

As at 31 December 2013, the Group placed deposits with the National Bank of the Republic of Cuba (without credit rating). As part of restructuring of reciprocal claims and liabilities, the 100th meeting of the IIB Council approved an Agreement under which the parties confirmed the debt of the Republic of Cuba to IIB, converted the debt into the Group's functional currency and made a partial write off of loans issued to borrowers in the Republic of Cuba (Note 11). Under this Agreement the parties also approved the principles and terms of debt settlement. Despite the restructuring, the Group did not reverse previously accrued allowances for impairment, therefore as at 31 December 2013, the Group created a 100% allowance for impairment of these deposits.

(Thousands of Euros)

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

Amounts due from the National Bank of the Republic of Cuba (continued)

	2013	*2012*
Term deposits with the National Bank of the Republic of Cuba without credit rating	34,967	35,119
Less: allowance for impairment	(34,967)	(35,119)
Term deposits with the National Bank of the Republic of Cuba	–	–

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

	2013	*2012*
At 1 January	**35,119**	**35,049**
(Reversal)/charge of allowance for impairment due to changes in exchange rates	(152)	70
At 31 December	**34,967**	**35,119**

Concentration of deposits with banks and other financial institutions

As at 31 December 2013, the Group had one counterparty (2012: no counterparties) accounting for over 20% of the Group's total deposits with banks and other financial institutions, except for deposits with the National Bank of the Republic of Cuba.

7. Financial assets at fair value through profit or loss

Financial instruments at fair value through profit or loss include derivative transactions. Derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions. Derivative financial instruments are either assets or liabilities depending on the fluctuations in the market which can have either favorable or unfavorable effect on these instruments. Thus, the fair value of derivative financial instruments may significantly change depending on potentially favorable or unfavorable conditions.

Foreign currency transactions

The table below shows the fair value of derivative financial instruments as of 31 December 2013 and notional amounts of term contracts for the purchase and sale of foreign currency specifying weighted average contractual exchange rates (31 December 2012: no).

	Notional amount		*Weighted average*	*Fair value*
	Purchase	*Sale*	*exchange rate*	*Assets*
Term transactions	14,400 EUR'000	19,646 USD'000	1.36	**151**

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

As at 31 December 2013, the Group has positions in the following types of derivatives:

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

(Thousands of Euros)

8. Available-for-sale investment securities

Available-for-sale investment securities comprise:

	2013	*2012*
Quoted debt securities		
Government bonds of member countries and bonds of regional governments:		
Eurobonds issued by governments of member countries	32,126	34,853
Bonds of regional governments	3,252	12,774
Government bonds of member countries and bonds of regional governments	**35,378**	**47,627**
Corporate bonds:		
Credit rating from A- to A+	46,488	3,877
Credit rating from BBB- to BBB+	45,193	41,959
Credit rating from BB- to BB+	–	4,258
Corporate bonds	**91,681**	**50,094**
Total quoted debt securities	**127,059**	**97,721**
Quoted equity instruments		
Credit rating BB	2,817	2,383
Total quoted equity instruments	**2,817**	**2,383**
Available-for-sale investment securities	**129,876**	**100,104**

Government bonds of member countries represent EUR-denominated and USD-denominated securities issued and guaranteed by the Ministries of Finance of these countries, maturing in 2017-2020 (2012: maturing in 2015-2025). The annual coupon rate for these bonds varies from 3.6% to 6.5% (2012: from 3.6% to 5.3%).

Bonds of regional governments represent EUR-denominated bonds issued by the city of Moscow, maturing in 2016 (2012: maturing in 2016). The annual coupon rate for these bonds is 5.1% (2012: 5.1%).

Corporate bonds are represented by the bonds issued by major companies and banks of member countries and EU countries, maturing in 2016-2023 (2012: maturing in 2013-2022). The annual coupon rate for these bonds varies from 2.9% to 7.9% (2012: from 4.3% to 8.5%).

Quoted equity securities are represented by shares of a major Russian company.

9. Held-to-maturity investment securities

As at 31 December 2013, held-to-maturity investment securities included quoted Eurobonds of Corporate Commercial Bank (city of Sofia, Bulgaria) with the carrying amount of EUR 5,910 thousand (2012: no).

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(Thousands of Euros)

10. Long-term loans to banks

In 2013, the Group changed priorities in its lending policy in terms of institutional and industry orientation and principles of selecting partners and counterparties. The principal lending activity is to facilitate the development of small and medium-sized businesses in the member countries and participate in financing of socially important infrastructure projects in these countries. The Group considers national development institutes, export and import banks and agencies, international financial organizations and development banks as its key counterparties.

In 2013, the Group provided long-term loans to banks operating in the following countries:

	2013
Mongolia	23,522
Russian Federation	20,058
Socialist Republic of Vietnam	15,215
Total long-term loans to banks	**58,795**

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

Analysis of collateral for long-term loans to banks

The following table provides an analysis of the portfolio of long-term loans to banks by type of collateral as at 31 December 2013:

	2013	
	Long-term loans to banks	*Share in the total loans, %*
Pledge of real property (mortgage) and title	6,012	10.2
Uncollateralized part of the loans	52,783	89.8
	58,795	**100.0**

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

Concentration of long-term loans to banks

As at 31 December 2013, long-term loans to five banks (2012: no) with the total amount of loans to each of them exceeding 10% of total long-term loans to banks were recorded on the Group's statement of financial position. As at 31 December 2013, the total amount of such major loans was EUR 48,647 thousand.

11. Loans to customers

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

	2013	*2012*
Mongolia	23,935	23,377
Slovak Republic	7,915	7,465
Republic of Bulgaria	5,775	6,153
Russian Federation	–	89,874
Total loans to customers	**37,625**	**126,869**
Less: allowance for loan impairment	–	(77,764)
Loans to customers	**37,625**	**49,105**

(Thousands of Euros)

11. Loans to customers (continued)

In December 2013, following the decision of the 100th meeting of the Bank's Council, IIB signed the Agreement with the Government of the Republic of Cuba in order to settle reciprocal claims and liabilities. According to the terms of the Agreement, outstanding loans to borrowers in the Republic of Cuba originated during the period of 1985-1990 were fully written off against previously charged allowances.

	2013	*2012*
Loans to customers in the Republic of Cuba	–	44,117
Less: allowance for loan impairment	–	(44,117)
Loans to customers	–	–

Overdue loans to customers

As at 31 December 2013, there were no overdue loans to customers. As at 31 December 2012, total loans for which the principal and/or interest is overdue amounted to EUR 96,586 thousand. An allowance for impairment of EUR 76,830 thousand was created for overdue loans.

As at 31 December 2013 and 31 December 2012, there were no overdue but not impaired loans.

Allowance for impairment of loans to customers

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

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

	Russian Federation	*Mongolia*	*Republic of Bulgaria*	*Total*
At 1 January 2012	**67,878**	**5,526**	–	**73,404**
Net charge for the year	1,553	302	2,927	**4,782**
Interest accrued on impaired loans	(402)	–	–	**(402)**
Change in allowance resulting from changes in exchange rates	–	(20)	–	**(20)**
At 31 December 2012	**69,029**	**5,808**	**2,927**	**77,764**
Individual impairment	**69,029**	**5,808**	**2,927**	**77,764**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**89,874**	**11,790**	**2,927**	**104,591**

(Thousands of Euros)

11. Loans to customers (continued)

Analysis of collateral

The following table provides an analysis of the customer loan portfolio, net of allowance for impairment, by types of collateral as at 31 December 2013 and 31 December 2012:

	2013		*2012*	
	Loans net of allowance for impairment	***Share in the total loans, %***	***Loans net of allowance for impairment***	***Share in the total loans, %***
Pledge of real property (mortgage) and title	37,625	100.0	30,795	62.7
Pledge of equipment and goods in turnover	–	–	7,118	14.5
Other	–	–	286	0.6
Uncollateralized part of the loans	–	–	10,906	22.2
Total loans to customers	**37,625**	**100.0**	**49,105**	**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.

As at 31 December 2013, pledge of real property (mortgage) cost EUR 5,119 thousand was not registered but the surety bank placed a short-term interest-free collateral deposit with IIB prior to the registration of mortgage in Mongolia (Note 17).

As at 31 December 2012 the fair value of collateral taken into account when creating the allowance for impairment was EUR 27,908 thousand.

Concentration of loans to customers

As at 31 December 2013, loans to four borrowers (2012: two) with the total amount of loans to each of the two borrowers exceeding 10% of total loans to customers were recorded in the Group's statement of financial position. As at 31 December 2013, these loans total comprised EUR 37,625 thousand (2012: EUR 38,252 thousand) and no impairment allowances (2012: allowances in the amount of EUR 24,479 thousand) has been made for them.

Analysis of loans to customers by industry

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

	2013	*2012*
Construction of buildings	20,188	50,816
Food and beverage	9,522	24,476
Specialized construction	7,915	7,465
Production, transmission and distribution of electricity, gas and steam	–	22,893
Timber manufacturing	–	10,005
Mining	–	8,922
Rubber and plastic manufacturing	–	1,365
Air transport	–	927
Total loans to customers	**37,625**	**126,869**

12. Assets held for sale

As at 31 December 2012, the Group recognized assets held for sale in the amount of EUR 10,744 thousand. In June 2012, as a result of repayment of a portion of an impaired loan, the Group received power equipment. The loan was issued to a borrower operating in the electric power industry. During the annual period, following the receipt of an asset the Group was active in offering it to its customers but, considering specific characteristics of the equipment and a limited number of potential customers, the annual period was extended. In 2013, the Group recognized the asset impairment in the amount of EUR 3,588 thousand within "Net (losses)/gains from impairment/disposal of assets held for sale" in the consolidated income statement, and the decrease in value due to changes in EUR/RUB exchange rate in the amount of EUR 1,171 thousand within "Net (losses)/gains from foreign currencies" in the consolidated income statement. In December 2013, the asset was sold to an independent customer at its carrying amount.

(Thousands of Euros)

13. Inventories – real estate objects

In January 2013, as part of efforts taken in respect of distressed loans, the Group acquired from the borrower real estate objects (finished apartments) held for resale.

In 2013, the Group sold certain apartments and earned EUR 3,727 thousand. The cost of apartments sold in 2013 is EUR 3,346 thousand.

As at 31 December 2013, the carrying amount of unsold apartments was EUR 4,929 thousand.

14. Investment property

In 2013 and 2012, the following changes occurred in the cost of property under operating lease:

	2013	*2012*
At 1 January	**52,409**	**50,287**
Transfers	1,028	–
Inseparable improvements	43	507
Effect of revaluation	–	1,615
Carrying amount at 31 December	**53,480**	**52,409**

The Group rents part of the building under operating lease agreements. In 2013, the Group's income from lease of investment property amounted to EUR 7,959 thousand (2012: EUR 7,331 thousand).

As at 31 December 2012, the fair value of investment property is determined based on the results of valuation performed on 26 December 2012. The valuation services were performed by an independent firm of professional appraisers which have acknowledged qualification and relevant professional experience in appraising real property of a similar category and in a similar location.

Based on the analysis performed, management believes that the fair value of investment property as at 31 December 2013 does not significantly differ from its carrying amount at that date.

The fair value is determined by reference to market-based evidence. For further details on the fair value of investment property refer to Note 26.

If the investment property was measured using the cost method, the carrying amounts as at 31 December 2013 and 31 December 2012 would be as follows:

	2013	*2012*
Cost	29,331	29,055
Accumulated depreciation	(10,903)	(10,450)
Net book value	**18,428**	**18,605**

The Group has neither restrictions on the realizability of its investment property nor contractual obligations to purchase, construct or develop investment properties, or to repair, maintain and enhance them.

(Thousands of Euros)

15. Property and equipment

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

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

The movements in property and equipment for the year ended 31 December 2012 were as follows:

	Buildings	*Equipment*	*Computers and software*	*Office furniture*	*Vehicles*	*Total*
Cost						
At 1 January 2012	**48,315**	**8,013**	**3,256**	**496**	**555**	**60,635**
Inseparable improvements	487	–	–	–	–	**487**
Additions	–	225	222	20	28	**495**
Disposals	–	(5)	–	(23)	–	**(28)**
Accounting for accumulated depreciation at revaluation	(732)	–	–	–	–	**(732)**
Effect of revaluation	2,284	–	–	–	–	**2,284**
At 31 December 2012	**50,354**	**8,233**	**3,478**	**493**	**583**	**63,141**
Accumulated depreciation						
At 1 January 2012	**–**	**(7,286)**	**(2,538)**	**(355)**	**(516)**	**(10,695)**
Charge for the year	(732)	(316)	(641)	(18)	(42)	**(1,749)**
Disposals	–	4	–	16	–	**20**
Accounting for accumulated depreciation at revaluation	732	–	–	–	–	**732**
At 31 December 2012	**–**	**(7,598)**	**(3,179)**	**(357)**	**(558)**	**(11,692)**
Net book value						
At 31 December 2011	**48,315**	**727**	**718**	**141**	**39**	**49,940**
At 31 December 2012	**50,354**	**635**	**299**	**136**	**25**	**51,449**

As at 31 December 2013, the cost of fully depreciated property and equipment still used by the Group was EUR 9,057 thousand (2012: EUR 10,056 thousand).

As at 31 December 2012, the fair value of a group of buildings owned by the Group is determined based on the results of valuation performed on 26 December 2012. The valuation services were performed by an independent firm of professional appraisers which have acknowledged qualification and relevant professional experience in appraising real property of a similar category and in a similar location.

Based on the analysis performed, management believes that the fair value of a group of buildings as at 31 December 2013 does not significantly differ from its carrying amount at that date.

(Thousands of Euros)

15. Property and equipment (continued)

The fair value is determined by reference to market-based evidence. For further details on the fair value of investment property refer to Note 26.

If the buildings were measured using the cost method, the carrying amounts as at 31 December 2013 and 31 December 2012 would be as follows:

	2013	*2012*
Cost	28,179	28,123
Accumulated depreciation	(10,459)	(10,022)
Net book value	**17,720**	**18,101**

16. Other assets and liabilities

Other assets comprise:

	2013	*2012*
Other accounts receivable	8,109	492
Advance payments and future period expenses	1,111	1,026
Property rights to participatory construction objects	–	1,811
Deferred tax assets	2	2
	9,222	**3,331**
Less: allowance for impairment of accounts receivable	(411)	(280)
Other assets	**8,811**	**3,051**

The movements in other impairment allowance are as follows:

	2013	*2012*
Allowance at 1 January	**280**	**119**
Net charge for the year	152	161
Change in allowance resulting from changes in exchange rates	(21)	–
Allowance at 31 December	**411**	**280**

Other liabilities comprise:

	2013	*2012*
Other accounts payable	3,912	3,098
Liabilities to transfer ownership of apartments	690	–
Settlements with employees	682	621
Provision for potential VAT payments related to income from leases	–	1,962
Other	557	122
Other liabilities	**5,841**	**5,803**

Based on the decision of the Bank's Board, in 2013 a provision for potential VAT payments related to income from leases was reversed since the statute of limitations for the tax inspectorate’s claim had expired (Note 23).

(Thousands of Euros)

17. Due to banks and other financial institutions

Due to banks and other financial institutions comprise:

	2013	*2012*
Correspondent accounts of banks without rating	1	1
Term deposits of banks:		
Credit rating from BBB- to BBB+	35,021	–
No credit rating	9,445	3,787
Collateral deposit:		
No credit rating	5,119	–
Due to banks and other financial institutions	**49,586**	**3,788**

Collateral deposit is provided by a Mongolian surety bank for a short term required to register mortgage in Mongolia (Note 11). Collateral deposit does not assume any accrual of interest expense and is placed by the Bank on the correspondent account with the Mongolian bank without credit rating (Note 5).

Concentration of deposits from banks and other financial institutions

As at 31 December 2013, the Group has one counterparty accounting for over 20% of the Group's total deposits from banks and other financial institutions in the amount of EUR 10,001 thousand.

18. Equity

Subscribed and paid-in capital

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

As at 31 December 2013, unpaid portion of the Bank's subscribed capital in the amount of EUR 1,058,685 thousand (2012: EUR 1,134,752 thousand) is the amount of contributions by the Bank's member countries which have not been made yet and the amount of unallocated equity contributions totaling EUR 296,900 thousand (2012: EUR 296,900 thousand).

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

Additionally, during the 99th meeting of the Council member countries supported the need for additional capitalization of the Bank by making additional contributions of at least EUR 100 million to the share capital. Therefore, member countries perform internal statutory procedures required to ensure additional capitalization of the Bank.

In 2012, based on the Council's decision, the Bank's paid-in share capital decreased by EUR 49,247 thousand (shares of the Republic of Poland and the Republic of Hungary). The Bank had no liabilities to the Republic of Poland and the Republic of Hungary, because per Bank's estimates the net assets of the International Investment Bank were negative as of the date the countries applied for withdrawal. Therefore, the Bank deems liabilities to the Republic of Poland and the Republic of Hungary as settled. The shares (quotes) of the Republic of Poland and the Republic of Hungary in the subscribed capital were transferred to equity unallocated between the member countries. And the shares from the Bank's paid-in capital were transferred to retained earnings.

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(Thousands of Euros)

18. Equity (continued)

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

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

	Revaluation reserve for available-for-sale investment securities	*Revaluation reserve for property and equipment*	*Revaluation reserve for currencies*
At 1 January 2012	**(2,351)**	**31,091**	**70**
Net unrealized gains on available-for-sale investment securities	10,418	–	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(3,727)	–	–
Revaluation of buildings	–	2,284	–
Translation differences	–	–	(70)
At 31 December 2012	**4,340**	**33,375**	–
Net unrealized gains on available-for-sale investment securities	1,533	–	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(5,659)	–	–
Translation differences	–	–	(1,219)
At 31 December 2013	**214**	**33,375**	**(1,219)**

Revaluation reserve for available-for-sale investment securities

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

Revaluation reserve for property and equipment

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

Revaluation reserve for currencies

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

19. Contingencies and loan commitments

Legal

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

The Group takes all necessary legal and other actions to collect the bad debt and to realize respective repossession rights.

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

(Thousands of Euros)

19. Contingencies and loan commitments (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.

Commitments and contingencies

At any time the Group has outstanding commitments to extend loans. These commitments take the form of approved loan agreements.

As at 31 December, commitments and contingencies of the Group comprised undrawn loan facilities in the amount of EUR 53,466 thousand (2012: EUR 20,419 thousand). The amounts of commitments assume that amounts are fully withdrawn.

20. Leases

Group as lessor

The Group provides its real estate for operating leases. As at 31 December 2013, the Group's non-cancellable operating lease rentals amount to EUR 8,281 thousand (2012: EUR 7,292 thousand) and will be settled within 1 year.

21. Interest income and interest expense

Net interest income comprises:

	2013	*2012*
Deposits with banks and other financial institutions, including cash and cash equivalents	2,449	1,724
Available-for-sale investment securities and held-to-maturity investment securities	4,362	3,366
Long-term loans to banks	1,013	–
Loans to customers	5,529	3,647
Interest income	**13,353**	**8,737**
Due to banks and other financial institutions	(349)	(2)
Current customer accounts	(71)	(30)
Other borrowed funds	(12)	–
Interest expenses	**(432)**	**(32)**
Net interest income	**12,921**	**8,658**

In 2013, interest income accrued on impaired loans to customers amounted to EUR 105 thousand (2012: EUR 1,615 thousand).

22. Net gain/(loss) from foreign currencies

Net gains less losses from foreign currencies comprise:

	2013	*2012*
Net (loss)/gain from revaluation of assets and liabilities in foreign currencies	(2,738)	884
Net gain/(loss) from trading in foreign currencies	56	(160)
Net (loss)/gain from foreign currencies	**(2,682)**	**724**

(Thousands of Euros)

23. Other income

The Group's other income comprised:

	2013	*2012*
Income from sale of loans	4,837	–
Income from sale of property rights to participatory construction objects	2,835	–
Income from recovery of provision for potential payments (Note 16)	1,764	–
Other	1,327	201
Total other income	**10,763**	**201**

24. General and administrative expenses

General and administrative expenses comprise:

	2013	*2012*
Employee compensations and employment taxes	10,293	7,620
Depreciation of property and equipment (Note 15)	1,182	1,749
IT-expenses, inventory and occupancy expenses	1,842	1,473
Expenses related to business travel, representative and accommodation expenses	1,281	1,291
Consulting and audit expenses	1,106	466
Other	1,047	904
General and administrative expenses	**16,751**	**13,503**

25. Risk management

Risk management framework

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

- identify, analyze and manage risks faced by the Bank;
- establish ratios and limits that restrict level of the appropriate types of risks;
- monitor the level of the risk and its compliance with established limits;
- develop and implement regulative and methodological documents as well as software applications that ensure the professional risk management for the bank transactions.

Risk management policies and procedures are reviewed regularly to reflect changing situation on the financial markets.

Risk management system

The Bank's Council, the Board, the Asset, Liability and Risk Committee (ALRCO), the Credit Committee and the Risk Management Department are responsible for managing the Group's risks.

The Bank's Council is responsible for the general control over the risk management system, determines its development strategy and sets strategic limits and risk appetite.

The Board is the executive body of the Bank, which is responsible for compliance with risk management policies and procedures and exercises control over ratios, limits and risk appetite set by the Council. The Board ensures co-operation among all business units and committees of the Bank with regard to risk management.

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

(Thousands of Euros)

25. Risk management (continued)

Risk management system (continued)

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

Committees meet on a regular basis and provide to the Board their recommendations on how to perform transactions and improve risk management policies and procedures.

The Risk Management Department collects and analyzes information related to all types of bank risks, develops and implements risk management methodology, performs their qualitative and quantitative assessment, prepares recommendations for the Board and committees of the Bank to mitigate risk impact on the Group’s performance.

In 2013, the risk management system was developed through the implementation of Basel standards and best practices of development banks within the Group:

- new methodological and regulatory documents relating to risk management have been elaborated. The 100th meeting of the IIB Council approved the new Risk management strategy, strategic limits of the Group and risk appetite indicators for 2014;
- a comparative analysis of top rating agencies' requirements to the risk management within the Group and other IIB institutions has been performed, based on which a target model of the risk management system, map of the most significant risks of the Group and scheme for allocating functions and powers between risk management items have been developed.

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

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

Risk identification

The Group identifies and manages both external and internal risk factors throughout its organizational structure. As a result of regular analysis of the Group’s exposure to different types of risks performed by the Risk Management Department, the Group identifies factors leading to the increase of the risk level and determines the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks influencing the results of banking transactions. Current risks exposures and their projected changes are discussed during the meetings of ALRCO and also communicated to the Management Board along with the recommendations on possible risk mitigation measures.

Risk assessment, management and control

The Group's risk exposure is primarily reduced by means of collective decision making. Strict allocation of responsibilities between business units and officers of the Group, precise description of instructions and procedures and assignment of competencies and powers to departments and their heads are also important risk mitigation factors. Appropriate methodologies are used to assess the risks. Instructions, procedures and methodologies are regularly reviewed and updated by the Group in order to reflect changed market conditions and improve risk management methods.

(Thousands of Euros)

25. Risk management (continued)

Risk assessment, management and control (continued)

The risk monitoring system comprises:

- Establishing limits to assume risks based on the respective risk assessment;
- Exercising control over the Group's exposure by means of:
  - compliance with the established limits;
  - regular assessment of the Group's risk exposure; and
  - internal audit of risk management systems.

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

- credit risk;
- liquidity risk;
- market risk;
- operational risk.

Credit risk

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

System of credit risk management

The Group’s regulatory documents establish the following:

- procedures to review and approve loan/credit applications;
- methodology for the credit assessment of borrowers, counterparties, issuers and insurance companies;
- requirements to the credit documentation;
- procedures for the ongoing monitoring of loans and other credit exposures.

The Credit Committee approves each new loan as well as changes in and amendments to loan agreements. The Credit Department is responsible for ongoing control over the quality of the Group's loan portfolio.

Upon preparation of a transaction by the initiating unit it is approved by the Credit Committee, and then – the Board. The Board is responsible for all direct credit risk exposures in the amount of up to 15% of the Bank's share capital and for the period of up to 7 years. Direct credit risks exposures exceeding the specified amount or the period of 7 years should be approved by the Bank's Council.

The corporate loan/credit application and appropriate project documents are reviewed by the Credit Department. In case of a positive decision, the set of documents from the Credit Department required for reviewing the loan/credit application shall be analyzed by the Legal Department, Risk Management Department, Security Department, Strategic Planning and Analysis Department, Internal Audit Department and Compliance Control Department. For the purpose of comprehensive analysis of the loan/credit application received from the Credit Department, the Legal Department and Risk Management Department jointly prepare Description of the Investment Transaction. The loan/credit application is subject to review by the Credit Committee based on the Description of the Investment Transaction, report of the Security Department and Strategic Planning and Analysis Department, report on risks of the Risk Management Department and compulsory judgment of the Legal Department in respect of the legal compliance of the proposed transaction. The procedure of making lending decisions comprises the following steps: Step 1 includes reviewing application by the Credit Committee; Step 2 includes making decision by the Board of the Bank (if such issue falls within its competence); Step 3 includes sending a set of respective documents approved by the Board of the Bank to the member countries in order to obtain the final approval from the country of origin of the borrower; Step 4 includes making decision by the Council of the Bank (if such issue falls within its competence).

(Thousands of Euros)

25. Risk management (continued)

Credit risk (continued)

Apart from individual customer analysis, the Risk Management Department assesses the whole loan portfolio with regard to credit concentration and market risks.

To mitigate credit risk, the Group limits concentrations of exposure to individual customers, counterparties and issuers, groups of related customers, counterparties and issuers as well as by industry and credit rating (for securities). Credit risk management process is based on regular analysis of the creditworthiness the borrowers and their ability to repay interest and principal of debt, and on correspondent limits modification (if necessary).

The Group continuously monitors the quality of individual credit exposures and regularly reassesses the creditworthiness of its customers. The revaluation is based on the customer’s most recent financial statements, past-due status, performance of its business plan and other information submitted by the borrower, or otherwise obtained by the Group. Based on this information, the borrower’s internal credit rating (class of the loan) may be revised and, accordingly, the appropriate loan impairment provision may be created or changed.

Collateral and other credit enhancements

Credit risk is also managed by obtaining pledge of real estate, assets and securities, and other collateral, including corporate and personal guarantees, as well as monitoring availability and value of collateral.

As availability of collateral is important to mitigate credit risk, this factor is a priority for the Group when reviewing loan/credit applications if their terms and conditions are similar. To ensure recovery of its resources associated with conducting lending and project-financing transactions, the Group applies the following types of collateral for recovery of loans and fulfillment of obligations:

- pledge of equipment and goods in turnover;
- pledge of real property (mortgage) and title;
- pledge of rights of demand and construction.

Quality of the collateral provided is assessed by the following criteria: safety, adequacy and liquidity. Collateral is not generally held over loans and deposits, except where securities are held as collateral in reverse repurchase agreements.

The Group assumes that the fair value of the collateral is its value estimate recognized by the Group to calculate the discounted impairment allowance based on its liquidity and possibility of selling such property in the event of borrower's default considering the time needed for such sale, litigation and other costs.

Current market value of the collateral, if necessary, is assessed by accredited appraisers or based on the Group's internal expert estimate, or carrying amount of the collateral including adjustment coefficient (discount). The Group's internal expert opinion on the fair value of the collateral and feasibility of the adjustment coefficient (discount), which adjusts the market value, shall be approved/ reconciled with the Risk Management Department. The adjustment coefficient (discount) is established based on the table of recommended discounts "Regulations on lending operations" as at initial measurement of the collateral value. Where the market value of the collateral is assessed as impaired, the clients are usually required to provide additional collateral.

Portfolio of long-term loans to banks and other financial institutions and customers (less allowance for impairment) by type of the Bank's collateral is analyzed in Notes 10 and 11.

Maximum exposure to credit risk

The maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Analysis of credit risk concentration by customers' industry is presented in Note 11.

Maximum credit risk exposure by credit related commitment represents all the amount of these commitments (Note 19).

(Thousands of Euros)

25. Risk management (continued)

Credit risk (continued)

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Credit quality per class of financial assets

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

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

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

As at 31 December 2013, there was no evidence of impairment of long-term loans to banks and all such loans were classified as standard. As at 31 December 2012, there were no such loans.

The following table provides information on the credit quality of long-term loans to banks (Note 10) and loans to customers (Note 11) as at 31 December 2013 and 31 December 2012:

2013	*Loan amount*	*Impairment*	*Loan amount, including impairment*	*Impairment to loan amount ratio, %*
Long-term loans to banks without any signs of impairment identified				
Standard loans				
- *Mongolia*	23,522	–	23,522	–
- *Russian Federation*	20,058	–	20,058	–
- *Socialist Republic of Vietnam*	15,215	–	15,215	–
	58,795	**–**	**58,795**	**–**
Loans to customers without any signs of impairment identified				
Standard loans				
- *Mongolia*	23,955	–	23,955	–
- *Slovak Republic*	7,915	–	7,915	–
- *Republic of Bulgaria*	5,775	–	5,775	–
	37,625	**–**	**37,625**	**–**
Total loans	**96,420**	**–**	**96,420**	**–**

(Thousands of Euros)

25. Risk management (continued)

Credit risk (continued)

2012	*Loan amount*	*Impairment*	*Loan amount, including impairment*	*Impairment to loan amount ratio, %*
Loans to customers without any signs of impairment identified				
Standard loans				
- Mongolia	11,586	–	11,586	–
- Slovak Republic	7,465	–	7,465	–
- Republic of Bulgaria	3,226	–	3,226	–
Impaired loans				
Loans not past due				
- Russian Federation	8,005	(933)	7,072	12
Loans overdue less than 90 days				
- Mongolia	10,864	(4,881)	5,983	45
Uncollectible loans				
- Russian Federation	81,869	(68,096)	13,773	83
- Republic of Bulgaria	2,927	(2,927)	–	100
- Mongolia	927	(927)	–	100
Total loans	**126,869**	**(77,764)**	**49,105**	**61**

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Renegotiated loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual impairment assessment, calculated using the loan's original effective interest rate.

Impairment assessment

The Group creates allowance for loan impairment that represents its estimate of losses incurred in its loan portfolio. The Group writes off a loan balance against related allowances for loan losses only subject to the approval of the Council and where the loan is determined as uncollectible and when all necessary steps to collect the loan are completed. Such decision is made after consideration of the information on significant changes in the client's financial position such as inability to repay the loan, and when proceedings from disposal of the collateral are insufficient to cover the debt amount in full.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Due to a limited number of borrowers, the Group considers each loan as individually significant. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected payout should bankruptcy ensue, the availability of financial support, the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

For uncollectible financial assets, the Group makes allowance in the amount equal to 100% of the amount of a financial asset.

The total amount of impairment allowance is approved by the Credit Committee on a monthly basis.

(Thousands of Euros)

25. Risk management (continued)

Liquidity risk

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

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

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

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

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

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

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

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

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

Due to the fact that all the Group's significant liabilities are short-term with maturity of up to 1 year, the Group does not estimate contractual undiscounted liabilities' cash flows since the expected cash outflow will not be significantly different from the carrying amount of the Group's financial liabilities as at 31 December 2013 and 31 December 2012.

The table below shows the contractual expiry by maturity of the Group's off-balance credit-related commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

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(Thousands of Euros)

25. 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:

	2013							2012							
	Less than 1 month	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Total*	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Past due*	*Total*
Assets:															
Cash and cash equivalents	20,045	–	–	–	–	–	**20,045**	8,407	–	–	–	–	–	–	**8,407**
Deposits with banks and other financial institutions	–	23,112	18,378	–	–	–	**41,490**	12,877	53,845	25,085	–	–	–	–	**91,807**
Financial assets at fair value through profit or loss	–	97	54	–	–	–	**151**	–	–	–	–	–	–	–	**–**
Available-for-sale investment securities	150	674	1,754	44,061	80,420	2,817	**129,876**	–	830	2,091	42,048	52,752	2,383	–	**100,104**
Held-to-maturity investment securities	117		5,793				**5,910**								
Long-term loans to banks	–	374	2,014	56,407		–	**58,795**	–	–	–	–	–	–	–	**–**
Loans to customers	–	430	7,832	27,463	1,900	–	**37,625**	–	1,026	7,100	10,573	10,650	–	19,756	**49,105**
Other assets	472	4,634	2,800	–	–	–	**7,906**	1,053	6	178	2	–	–	–	**1,239**
Total assets	**20,784**	**29,321**	**38,625**	**127,931**	**82,320**	**2,817**	**301,798**	**22,337**	**55,707**	**34,454**	**52,623**	**63,402**	**2,383**	**19,756**	**250,662**
Liabilities:															
Due to banks and other financial institutions	(24,566)	(25,020)	–	–	–	–	**(49,586)**	(3,788)	–	–	–	–	–	–	**(3,788)**
Current customer accounts	(3,313)	–	–	–	–	–	**(3,313)**	(2,396)	–	–	–	–	–	–	**(2,396)**
Other liabilities	(727)	(2,944)	(1,619)	–	–	–	**(5,290)**	(2,418)	(215)	(3,170)	–	–	–	–	**(5,803)**
Total liabilities	**(28,606)**	**(27,964)**	**(1,619)**	**–**	**–**	**–**	**(58,189)**	**(8,602)**	**(215)**	**(3,170)**	**–**	**–**	**–**	**–**	**(11,987)**
Net position	**(7,822)**	**1,357**	**37,006**	**127,931**	**82,320**	**2,817**	**243,609**	**13,735**	**55,492**	**31,284**	**52,623**	**63,402**	**2,383**	**19,756**	**238,675**
Accumulated net position	**(7,822)**	**(6,465)**	**30,541**	**158,472**	**240,792**	**243,609**	–	**13,735**	**69,227**	**100,511**	**153,134**	**216,536**	**218,919**	**238,675**	**–**
Off-balance credit-related commitments	**–**	**(48,466)**	**(5,000)**	**–**	**–**	**–**	**(53,466)**	–	**(2,997)**	**(17,422)**	**–**	**–**	**–**	**–**	**(20,419)**

The accumulated negative liquidity gap in the periods of "less than 1 month" and "1 to 3 months" can be offset with high liquid available for sale investment securities, that can be realized at any moment on market terms. If it is necessary the gained liquid assets can be used to meet the short term liabilities of the Group.

(Thousands of Euros)

25. Risk management (continued)

Market risk

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

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

The Board of the Bank performs overall management of market risk.

ALRCO, led by the Deputy Chairman of the Bank's Management Board, coordinates the Group's market risk management policy, considers and provides to the Management Board recommendations on management of market risks, as well as assets and liabilities.

The Treasury Department performs operative management of market risks. The Risk Management Department performs the assessment of equity and currency risks exposure. The Treasury Department manages open positions within the established limits in order to increase the Group's income on a daily basis.

Currency risk and price risk

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

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

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

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

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

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

As at 31 December 2013 and 31 December 2012, final data on value at risk assessment in relation to currency and price risks assumed by the Group are represented as follows:

	2013	*2012*
Fixed income securities price risk	2,174	1,520
Equity securities price risk	335	414
Currency risk	1,211	1,259

(Thousands of Euros)

25. Risk management (continued)

Market risk (continued)

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

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

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(Thousands of Euros)

25. Risk management (continued)

Market risk (continued)

The Group's exposure to currency risk as at 31 December 2013 and 31 December 2012 is presented below:

	2013					*2012*				
	EUR	*USD*	*RUB*	*Other currencies*	*Total*	*EUR*	*USD*	*RUB*	*Other currencies*	*Total*
Assets										
Cash and cash equivalents	9,222	331	5,170	5,322	**20,045**	1,010	1,321	5,944	132	**8,407**
Deposits with banks and other financial institutions	23,112	16,015	2,363	–	**41,490**	91,807	–	–	–	**91,807**
Available-for-sale investment securities	102,911	22,940	4,025	–	**129,876**	77,961	22,143	–	–	**100,104**
Held-to-maturity investment securities	–	5,910	–	–	**5,910**	–	–	–	–	**–**
Long-term loans to banks and other financial institutions	41,285	17,510	–	–	**58,795**					
Loans to customers	37,625	–	–	–	**37,625**	49,105	–	–	–	**49,105**
Other assets	590	7	8,214	–	**8,811**	332	173	734	–	**1,239**
	214,745	**62,713**	**19,772**	**5,322**	**302,552**	**220,215**	**23,637**	**6,678**	**132**	**250,662**
Liabilities										
Due to banks and other financial institutions	19,035	25,432	–	5,119	**49,586**	–	3,788	–	–	**3,788**
Current customer accounts	3,162	151	–	–	**3,313**	2,247	149	–	–	**2,396**
Other liabilities	3,064	187	1,999	40	**5,290**	2,033	275	3,495	–	**5,803**
	25,261	**25,770**	**2,550**	**5,159**	**58,189**	**4,280**	**4,212**	**3,495**	**–**	**11,987**
Net balance sheet position	**189,484**	**36,943**	**17,222**	**163**	**243,458**	**215,935**	**19,425**	**3,183**	**132**	**238,675**
Derivative financial instruments										
Claims	14,400	–	–	–	14,400	–	–	–	–	–
Liabilities	–	(14,249)	–	–	(14,249)	–	–	–	–	–
Net balance sheet position including derivative financial instruments	**203,884**	**22,694**	**16,868**	**163**	**243,609**	**215,935**	**19,425**	**3,183**	**132**	**238,675**

(Thousands of Euros)

25. Risk management (continued)

Market risk (continued)

Interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates in its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise.

Sensitivity analysis of the Group's equity to changes in interest rate (based on simplified scenario of a 100 basis point (bp) and positions of available-for-sale debt securities parallel fall or rise in all yield curves as at 31 December 2013 and 31 December 2012) is as follows;

	31 December 2013	*31 December 2012*
	The Bank's equity	***The Bank's equity***
100 bp parallel rise	(6,342)	(5,085)
100 bp parallel fall	6,342	5,085

Operational risk

Operational risk is a risk of loss arising from inadequate management and control procedures, fraud, inconsistent business solutions, system failures due to human errors and abuse of power, technical deficiencies, calculation errors, disasters and misuse of the Group's property.

Generally, the Board controls the risk management process as well as compliance with internal policies, approves internal regulations relating to risk management, establishes operational risks monitoring limits and allocates duties relating to operational risk management among various agencies.

The Risk Management Department controls and monitors operational risks and provides respective reporting to the Board. The current control enables to timely identify and eliminate deficiencies in policies and procedures aimed at operational risk management, as well as to cut the possibility and amount of related losses. The Group continuously seeks to enhance its business processes, operating structure and personnel incentives system in order to minimize the impact of operational risk.

(intentionally blank)

(Thousands of Euros)

26. Fair values of financial instruments

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

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

Fair value hierarchy

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

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of their nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2012:

	Valuation date	*Level 1 2012*	*Level 2 2012*	*Level 3 2012*	*Total 2012*
Financial assets					
Available-for-sale investment securities	31 December 2012	98,936	1,168	–	**100,104**

(Thousands of Euros)

26. Fair values of financial instruments (continued)

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

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

	Carrying amount 2013	*Fair value 2013*	*Unrecognized gain/(loss) 2013*	*Carrying amount 2012*	*Fair value 2012*	*Unrecognized gain/(loss) 2012*
Financial assets						
Cash and cash equivalents	20,045	20,045	–	8,407	8,407	–
Deposits with banks and other financial institutions	41,490	41,490	–	91,807	91,807	–
Financial assets at fair value through profit or loss	151	151	–	–	–	–
Held-to-maturity investment securities	5,910	5,928	18	–	–	–
Long-term loans to banks	58,795	58,795	–	–	–	–
Loans to customers	37,625	37,625	–	49,105	48,037	(1,068)
Financial liabilities						
Due to banks and other financial institutions	49,586	49,586	–	3,788	3,788	–
Current customer accounts	3,313	3,313	–	2,396	2,396	–
Total unrecognized change in fair value			**18**			**(1,068)**

Methodologies and assumptions

The following describes the methodologies and assumptions used to determine fair values of those financial instruments which are not recorded at fair value in these consolidated financial statements.

Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value.

Cash and cash equivalents, deposits with banks and other financial institutions

Management has estimated that at 31 December 2013 and 31 December 2012 the fair value of deposits with banks and other financial institutions and cash and cash equivalents was not significantly different from their respective carrying amount. This is due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost is estimated by comparing market interest rates at their initial recognition with current market rates offered for similar financial instruments.

The estimated fair value of fixed interest bearing long-term loans to banks, loans to customers, and deposits in banks is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. Management has estimated that at 31 December 2013 the fair value of long-term loans to banks and loans to customers was not significantly different from their respective carrying amount.

(Thousands of Euros)

27. Segment information

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

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

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

2013	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	6,503	6,811	39	**13,353**
Net gains from trading in foreign currencies	–	56	–	**56**
Net gains from available-for-sale investment securities	–	5,659	–	**5,659**
Income from lease of investment property	–	–	7,959	**7,959**
Net losses from impairment of assets held for sale	–	–	(3,588)	**(3,588)**
Revenues from sales of inventory	–	–	3,727	**3,727**
Other segment income	–	362	7,672	**8,034**
Total income	**6,503**	**12,888**	**15,809**	**35,200**
Interest expenses	–	(432)	–	**(432)**
Cost of inventories sold	–	–	(3,346)	**(3,346)**
Allowance for loans impairment	(10,105)	–	–	**(10,105)**
Segment performance results	**(3,602)**	**12,456**	**12,463**	**21,317**
Other unallocated income				**3,205**
Other unallocated expense				**(21,894)**
Profit for the year				**2,628**
Segment assets	101,539	189,217	120,356	**411,112**
Segment liabilities	5,119	44,467	9,154	**58,740**
Other segment information				
Capital expenditures	–	–	115	**115**

(Thousands of Euros)

27. Segment information (continued)

2012	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	3,600	5,090	–	**8,690**
Net losses from trading in foreign currencies	–	(160)	–	**(160)**
Net gains from available-for-sale investment securities	–	3,727	–	**3,727**
Income from lease of investment property	–	–	7,331	**7,331**
Net gains on disposal of assets held for sale	75	–	–	**75**
Other segment income	–	182	–	**182**
Total income	**3,675**	**8,839**	**7,331**	**19,845**
Interest expenses	–	(32)	–	**(32)**
Allowance for loan impairment	(4,782)	–	–	**(4,782)**
Segment performance results	**(1,107)**	**8,807**	**7,331**	**15,031**
Other unallocated income				**2,938**
Other unallocated expense				**(15,073)**
Profit for the year from continuing operations				**2,896**
Loss from discontinued operations after income tax				**(640)**
Profit for the year				**2,256**
Segment assets	49,105	200,303	117,668	**367,076**
Segment liabilities	–	3,788	8,199	**11,987**
Other segment information				
Capital expenditures	–	–	994	**994**

In 2013 and 2012 the Group had one counterparty with lease operations revenue exceeding 10 % of total Group's revenue (2013: EUR 5,473 thousand; 2012: EUR 5,026 thousand).

Geographical information

Allocation of the Group's revenue from transactions with external customers and non-current assets based on the location of these customers and assets as at 31 December 2013 and 31 December 2012 and for the years then ended is presented in the tables below:

	2013				*2012*			
	Russia	*Other member countries*	*Other countries*	*Total*	*Russia*	*Other member countries*	*Other countries*	*Total*
Interest income from external customers	5,417	7,094	842	**13,353**	3,445	4,497	748	**8,690**
Income from lease of investment property	7,959	–	–	**7,959**	7,331	–	–	**7,331**
Revenues from sales of inventory	3,727	–	–	**3,727**	–	–	–	–
Non-current assets	103,480	–	–	**103,480**	103,858	–	–	**103,858**

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

(Thousands of Euros)

27. Segment information (continued)

Geographical information (continued)

The geographical concentration of the Group's financial assets and liabilities as at 31 December 2013 and 31 December 2012 is presented below:

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

(Thousands of Euros)

27. Segment information (continued)

Geographical information (continued)

	2012									
	Russian Federation	*Czech Republic*	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Republic of Cuba*	*Mongolia*	*Socialist Republic of Vietnam*	*Other countries*	*Total*
Assets:										
Cash and cash equivalents	6,073	–	–	–	–	–	–	–	2,334	**8,407**
Deposits with banks and other financial institutions	37,962	–	15,033	–	10,018	–	18,759	–	10,035	**91,807**
Available-for-sale investment securities	49,317	15,078	3,326	10,915	12,267	–	1,168	–	8,033	**100,104**
Loans to customers less allowances for impairment	20,845	–	3,226	–	7,465	–	17,569	–	–	**49,105**
Assets	**114,197**	**15,078**	**21,585**	**10,915**	**29,750**	–	**37,496**	–	**20,402**	**249,423**
Liabilities:										
Due to banks and other financial institutions	–	–	3,788	–	–	–	–	–	–	**3,788**
Liabilities	–	–	**3,788**	–	–	–	–	–	–	**3,788**

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

(Thousands of Euros)

28. Offsetting of financial instruments

The table below shows financial assets offset against financial liabilities in the consolidated statement of financial position, as at 31 December 2013 as well as the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the consolidated statement of financial position:

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

There was no financial assets offset against financial liabilities in the consolidated statement of financial position, as at 31 December 2012 as well as the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the consolidated statement of financial position.

29. Related party disclosures

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

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

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for 2013 and 2012 are as follows:

		2013		*2012*	
	Related party	*Carrying amount*	*Average interest rate, %*	*Carrying amount*	*Average interest rate, %*
Balance sheet					
Current customer accounts	Key management personnel	120	1.5	75	1.5

		2013	*2012*
	Related party	*Income/(expense)*	*Income/(expense)*
Income statement			
Interest expense on current customer accounts	Key management personnel	(14)	(6)
Employee benefits	Key management personnel	(1,134)	(744)
Compensation for travel expenses and medical insurance	Key management personnel	(84)	(106)
		(1,232)	**(856)**

(Thousands of Euros)

30. Capital adequacy

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

The Basel Committee on Banking Regulations recommends maintaining the ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 31 December 2013, this minimum level was 8% (2012: 8%).

Besides, taking into account the Bank's status as the multilateral development institution and the structure of the Bank's member countries and respective decision of the Council, the capital adequacy ratio was set at the level of not less than 25% as of 31 December 2013 (2012: 25%).

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

The following table shows the composition of the Group's capital position computed in accordance with the Basel Accord (Basel II), as of 31 December 2013 and 31 December 2012.

	31 December 2013	*31 December 2012*
Capital:		
Tier 1 capital	317,373	315,118
Tier 2 capital	32,370	37,715
Total regulatory capital	**349,743**	**352,833**
Risk-weighted assets:		
Credit risk	163,875	140,782
Market risk	117,431	93,210
Operational risk	60,585	118,116
Total risk-weighted assets	**341,891**	**352,108**
Total capital expressed as a percentage of risk-weighted assets, % ("capital adequacy ratio")	**102.30%**	**100.21%**
Total tier 1 capital expressed as a percentage of risk-weighted assets, % ("tier 1 capital ratio")	**92.83%**	**89.49%**

31. Discontinued operations

In February 2012, the Group sold its 100% interest in LLC StroyProektInvest to independent purchasers for EUR 0.25 thousand paid in cash and amount of the loan with fair value of EUR 6,707 thousand. The excess of the current carrying amount of liabilities less current carrying amount of assets of LLC StroyProektInvest over the compensation paid in cash and the fair value of newly recognized loan amounted to EUR 640 thousand as of the acquisition date. This excess was recognized in the consolidated income statement as a result of discontinued operation.

	Carrying value as of the disposal date
Assets	10,121
Liabilities	2,774
Total identifiable net assets	**7,347**
Compensation received upon disposal of control	(6,707)
Loss from disposal of control	**640**

(Thousands of Euros)

32. Subsequent events

On 27 February 2014 Government of the Slovak Republic was the first among the member countries of the International Investment Bank to fulfill its obligations over additional capitalization of the bank. EUR 6,294 thousand were transferred to the Bank's accounts against Slovak additional contribution to the Bank's share capital. As a result, the paid-in capital of International Investment Bank amounted to EUR 247,609 thousand with increase of Slovak share to 8.67%.

(The end).

International Investment Bank

Interim condensed consolidated financial statements

Six months ended 30 June 2014

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Совершенствуя бизнес,
улучшаем мир

CJSC Ernst & Young Vneshaudit
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ЗАО «Эрнст энд Янг Внешаудит»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 00139790

Report on review of interim condensed consolidated financial statements

To the Council of the International Investment Bank

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of the International Investment Bank and its subsidiaries (the "Group"), which comprise interim condensed consolidated statement of financial position as at 30 June 2014, the related interim condensed consolidated statements of income and comprehensive income for the three-month and the six-month periods then ended, interim condensed consolidated statements of changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

19 August 2014

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

(Thousands of euros)

	Note	*30 June 2014*	*31 December 2013*
Assets			
Cash and cash equivalents	5	34,953	20,045
Deposits with banks and other financial institutions	6	48,535	41,490
Financial assets at fair value through profit or loss	7	3,824	151
Available-for-sale investment securities	8	128,063	129,876
Available-for-sale investment securities pledged under repurchase agreements	8	17,935	–
Held-to-maturity investment securities	9	5,974	5,910
Long-term loans to banks	10	96,568	58,795
Loans to customers	11	48,378	37,625
Inventories – real estate objects	12	4,203	4,929
Investment property		52,488	53,480
Property and equipment		50,897	50,000
Other assets	13	8,201	8,811
Total assets		**500,019**	**411,112**
Liabilities			
Due to banks and other financial institutions	14	57,202	49,586
Financial liabilities at fair value through profit or loss	7	680	–
Current customer accounts		4,145	3,313
Long-term interbank borrowings	15	18,224	–
Debt securities issued	16	43,825	–
Other liabilities	13	5,581	5,841
Total liabilities		**129,657**	**58,740**
Equity	17		
Subscribed capital		1,300,000	1,300,000
Callable capital		(1,042,391)	(1,058,685)
Paid-in capital		**257,609**	**241,315**
Revaluation reserve for available-for-sale investment securities		(636)	214
Revaluation reserve for property and equipment		33,375	33,375
Foreign currency translation reserve		(1,405)	(1,219)
Retained earnings less net income for the period		78,687	76,059
Net income for the period		2,732	2,628
Total equity		**370,362**	**352,372**
Total equity and liabilities		**500,019**	**411,112**

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

Denis Ivanov — Acting Chairman of the Board

Eugeny Atanassov — Managing Director of the Financial Department

19 August 2014

The accompanying notes 1-29 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For six months ended 30 June 2014

(Thousands of Euros)

		For the three-month period ended 30 June		*For the six-month period ended 30 June*	
	Note	*2014*	*2013*	*2014*	*2013*
Financial result from continuing operations					
Interest income	20	4,191	3,131	7,491	6,814
Interest expenses	20	(1,065)	(146)	(1,209)	(225)
Net interest income		**3,126**	**2,985**	**6,282**	**6,589**
(Allowance)/reversal of allowance for impairment of loans to customers	11	(1,987)	(1,358)	(3,574)	771
Net interest income/(expense) after allowance for loan impairment		**1,139**	**1,627**	**2,708**	**7,360**
Fee and commission income		–	207	31	212
Fee and commission expense		(13)	(16)	(29)	(36)
Net fee and commission income		**(13)**	**191**	**2**	**176**
Net (losses)/gains from foreign currencies	21	1,019	(1,346)	(198)	(694)
Net gains from available-for-sale investment securities		2,887	1,673	4,650	5,299
Income from lease of investment property	19	2,091	1,985	4,091	3,955
Dividend income		–	263	–	263
Revenues from sales of inventory	12	168	–	579	–
Other income		(109)	34	51	68
Net non-interest income		**6,056**	**2,609**	**9,173**	**8,891**
Operating income		**7,182**	**4,427**	**11,883**	**16,427**
Reversal of allowance for impairment of other assets		1	–	1	–
General and administrative expenses	22	(3,910)	(4,495)	(8,349)	(7,658)
Cost of inventories sold	13	(192)	–	(609)	–
Other operating expenses		(176)	(66)	(194)	(110)
Operating expenses		**(4,277)**	**(4,561)**	**(9,151)**	**(7,768)**
Profit/(loss) before income tax		**2,905**	**(134)**	**2,732**	**8,659**
Income tax		–	–	–	–
Net profit/(loss) for the period		**2,905**	**(134)**	**2,732**	**8,659**

The accompanying notes 1-29 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For six months ended 30 June 2014

(Thousands of Euros)

		For the three-month period ended 30 June		*For the six-month period ended 30 June*	
	Note	*2014*	*2013*	*2014*	*2013*
Net profit/(loss) for the period		**2,905**	**(134)**	**2,732**	**8,659**
Other comprehensive (loss)/income					
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:					
Movements in unrealized revaluation reserve for available-for-sale investment securities		1,803	(5,188)	(850)	(8,276)
Translation differences		360	(708)	(186)	(699)
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		**2,163**	**(5,896)**	**(1,036)**	**(8,975)**
Other comprehensive (loss)/income		**2,163**	**(5,896)**	**(1,036)**	**(8,975)**
Total comprehensive (loss)/income for the period		**5,068**	**(6,030)**	**1,696**	**(316)**

The accompanying notes 1-29 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For six months ended 30 June 2014

(Thousands of Euros)

	Subscribed capital	*Callable capital*	*Revaluation reserve for available-for-sale investment securities*	*Revaluation reserve for property and equipment*	*Foreign currency translation reserve*	*Retained earnings*	*Total equity*
At 1 January 2013	**1,300,000**	**(1,134,752)**	**4,340**	**33,375**	**–**	**152,126**	**355,089**
Profit for the period	–	–	–	–	–	8,659	**8,659**
Other comprehensive loss for the period	–	–	(8,276)	–	(699)	–	**(8,975)**
Total comprehensive (loss)/income	**–**	**–**	**(8,276)**	**–**	**(699)**	**8,659**	**(316)**
Subscribed capital withdrawal (Note 17)	–	76,067	–	–	–	(76,067)	–
At 30 June 2013	**1,300,000**	**(1,058,685)**	**(3,936)**	**33,375**	**(699)**	**84,718**	**354,773**
At 1 January 2014	**1,300,000**	**(1,058,685)**	**214**	**33,375**	**(1,219)**	**78,687**	**352,372**
Profit for the period	–	–	–	–	–	2,732	**2,732**
Other comprehensive loss for the period	–	–	(850)	–	(186)	–	**(1,036)**
Total comprehensive (loss)/income	**–**	**–**	**(850)**	**–**	**(186)**	**2,732**	**1,682**
Subscribed capital withdrawal (Note 17)	–	16,294	–	–	–	–	**16,294**
At 30 June 2014	**1,300,000**	**(1,042,391)**	**(636)**	**33,375**	**(1,405)**	**81,419**	**370,362**

The accompanying notes 1-29 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For six months ended 30 June 2014

(Thousands of Euros)

	Note	*For the six-month period ended 30 June* 2014	2013
Cash flows from operating activities			
Interest, fees and commissions received from deposits and long-term loans to banks and other financial institutions, and loans to customers		3,599	2,779
Interest, fees and commissions paid		(426)	(150)
Net receipts from foreign currencies		(384)	(121)
Cash flows from lease of investment property		4,091	3,955
General and administrative expenses		(6,813)	(7,392)
Other expenses arising from banking transactions		(145)	(110)
Cash flows from operating activities before changes in operating assets and liabilities		**(78)**	**(1,039)**
Net (increase)/decrease in operating assets			
Deposits with banks and other financial institutions		(5,899)	25,506
Long-term loans to banks		(37,632)	–
Loans to customers		(13,939)	(38,461)
Inventories – real estate objects		–	(927)
Other assets		658	(7,594)
Net increase/(decrease) in operating liabilities			
Due to banks and other financial institutions		6,429	29,303
Current customer accounts		831	26
Other liabilities		469	310
Net cash flows from operating activities		**(49,161)**	**7,124**
Cash flows from investing activities			
Purchase of available-for-sale investment securities		(241,980)	(112,758)
Proceeds from sale and redemption of investment securities		232,362	112,703
Purchase of held-to-maturity investment securities		241	(5,958)
Investment in investment property		(20)	(33)
Acquisition of property and equipment		(573)	(159)
Net cash flows from investing activities		**(9,970)**	**(6,206)**
Cash flows from financing activities			
Raising long-term loans from banks		17,852	–
Issue of debt securities	16	40,441	–
Capital contributions	17	16,294	–
Net cash flows from financing activities		**74,587**	**–**
Effect of exchange rate changes on cash and cash equivalents		(548)	(751)
Net decrease in cash and cash equivalents		**14,908**	**167**
Cash and cash equivalents, beginning		**20,045**	**8,407**
Cash and cash equivalents, ending	5	**34,953**	**8,574**

The accompanying notes 1-29 are an integral part of these interim condensed consolidated financial statements.

(Thousands of Euros)

1. Principal activities

These consolidated financial statements include the financial statements of the International Investment Bank (the "Bank") and its subsidiaries. The Bank and its subsidiaries are hereinafter referred together as the "Group". The International Investment Bank is the parent company of the Group. The list of the Bank's subsidiaries is presented in Note 2.

The Bank was founded in 1970, has operated since 1 January 1971 and is an international institution operating on the basis of the Intergovernmental Agreement on the Establishment of the International Investment Bank (the "Agreement") and the Statutes. The Agreement was ratified by the member countries of the Bank and registered with the Secretariat of the United Nations in December 1971. The Bank is primarily engaged in commercial lending for the benefit of national investment projects in the member countries of the Bank and for other purposes defined by the Council of the Bank. The Bank also performs transactions with securities and foreign currency. The Bank operates from its office at 7 Mashi Poryvaevoi St., Moscow, Russia.

In 2013, the Bank completed the implementation of the Relaunch Program, which was unanimously approved at the 98th meeting of the Bank's Council in November 2012, and from 1 January 2014 experienced deep structural transformations, which gave the Group an opportunity to operate in accordance with modern requirements and standards for international banks for development.

- The new system of risk management compliant with Basel II standards came into force. The Group operates in accordance with indicative risk appetite values set by the Board.
- The Group implemented the modern planning system, which will help to ensure the integration and interrelation of strategic, tactical and operating goals and tasks.
- The Group is continuing to integrate into the international development institutions system: accession to the Master Cooperation Agreement with IFC means IIB joins 19 leading development institutions and has more opportunities for the development of syndicated lending projects.
- The Bank issued bond loan for the first time in its history.
- The Group continues to expand its loan portfolio characterized by high country diversification and to extend products range. The disbursement of loan within the framework of the first project in Romania in many years, as well as financing the major telecommunication company in the Republic of Bulgaria may be given as examples.

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 2014, %*	*31 December 2013, %*
Russian Federation	58.238	58.026
Czech Republic	11.791	12.587
Republic of Bulgaria	11.583	12.365
Slovak Republic	8.339	6.294
Romania	7.164	7.647
Republic of Cuba	2.081	2.222
Mongolia	0.407	0.435
Socialist Republic of Vietnam	0.397	0.424
	100.000	**100.000**

The decision of the 99th meeting of the Bank's Council on the additional capitalization in the amount of EUR 100 million is being implemented. The following countries have fulfilled their obligations in respect of contributions to the Bank's share capital: in February 2014, Slovak Republic contributed EUR 6.3 million, and in May 2014, the Russian Federation contributed EUR 10 million.

(Thousands of Euros)

1. Principal activities (continued)

Member countries of the Bank (continued)

In accordance with the Agreement, each member country of the Bank may withdraw from membership upon notice to the Council of the Bank at least six months in advance. In this case the Bank must settle all obligations to the relevant member country.

The member countries of the Bank may vote at the meetings of the Council and each member country has one vote regardless of the size of its contribution to the Bank's capital.

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

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

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

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

Business environment in the member countries

The member countries have experienced political and economic change, which has affected, and may continue to affect, the activities of enterprises operating in these countries. Consequently, operations in some member countries involve risks, which do not typically exist in developed markets.

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

2. Basis of preparation

General

These interim condensed consolidated financial statements have been prepared for the six months ended 30 June 2014 in accordance with International Financial Reporting Standard ("IFRS") IAS 34 *Interim Financial Reporting*, approved by the International Accounting Standards Board.
The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2013.

Subsidiaries

The Bank is a parent company of the Group, which owns CJSC IIB Capital (a 100% subsidiary established in 2012) as at 30 June 2014. The share capital of the subsidiary at its establishment amounted to RUB 10 thousand (EUR 250). In 2013, the Bank made an additional contribution to the share capital of the subsidiary in the amount of EUR 11,161 thousand.

Basis of measurement

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

(Thousands of Euros)

2. Basis of preparation (continued)

Functional and presentation currency

In accordance with the Statutes of the Bank, the management has determined the Group's functional and presentation currency of the interim condensed consolidated financial statements to be the Euro ("EUR") 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. The functional currency of the Group's subsidiary is Russian ruble.

These interim condensed consolidated financial statements are presented in thousands of Euros ("Thousands of Euros" or "EUR thousand"), unless otherwise indicated.

3. Summary of accounting policies

The accounting policies, calculation methods and basis of measurement adopted in the preparation of these interim condensed consolidated financial statements are consistent with those adopted and described in the consolidated financial statements of the Group for the year ended 31 December 2013, except for the adoption of new standards and interpretations as at 1 January 2014, noted below:

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

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment were not relevant to the Group, since the Group is not qualified to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities − Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments are effective for annual periods beginning on or after 1 January 2014. These amendments had no impact on the Group.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. IFRIC 21 did not have material impact on the Group's consolidated financial statements.

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

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. These amendments had no impact on the Group, since the Group has not novated its derivatives during the current period.

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

These amendments eliminate unintended consequences of application of IFRS 13 *Fair Value Measurement* required in accordance with IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units for which impairment loss has been recognized or reversed during the period. The amendments had no impact on the financial position or performance of the Group.

(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 consolidated financial statements, which have the most significant effect on the amounts recognized in the consolidated financial statements and the carrying amount of assets and liabilities in the following financial year. Estimates and assumptions are continuously assessed and are based on the management experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Assumptions and estimates adopted by the management of the Group in the process of applying the accounting policies are consistent with those described in the consolidated financial statements of the Bank for the year ended 31 December 2013.

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

- Note 7 – Financial liabilities at fair value through profit or loss
- Note 8 – Available-for-sale investment securities
- Note 10 – Long-term loans to banks
- Note 11 – Loans to customers
- Note 12 – Inventories – real estate objects
- Note 18 – Contingencies and lending commitments.

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(Thousands of Euros)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2014	*31 December 2013*
Cash on hand	**250**	**970**
Nostro accounts with banks and other financial institutions		
Credit rating AAA	91	2,148
Credit rating from A- to A+	16,696	838
Credit rating from BBB- to BBB+	536	198
No credit rating	–	–
Total Nostro accounts with banks and other financial institutions	**17,323**	**3,184**
Short-term deposits with banks:		
Term deposits with banks		
Credit rating from AA- to AA+	12,002	–
Credit rating from A- to A+	–	6,500
Credit rating from BBB- to BBB+	240	4,272
Total short-term deposits with banks	**12,242**	**10,772**
Collateral on credit transactions with banks		
No credit rating	5,138	5,119
Cash and cash equivalents	**34,953**	**20,045**

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

In December 2013, the Mongolian customer with no credit rating was provided a long-term mortgage loan (Note 11). The surety bank placed a short-term interest-free collateral deposit with IIB prior to the mortgage registration in Mongolia (Note 14). The deposit in the amount of EUR 5,138 thousand is placed by the Bank on the correspondent account of the surety bank.

6. Deposits with banks and other financial institutions

Deposits with banks and other financial institutions comprise:

	30 June 2014	*31 December 2013*
Term deposits with banks up to 1 year		
Credit rating from BBB- to BBB+	732	–
Credit rating from BB- to BB+	875	1,028
Credit rating B+	46,928	40,462
Deposits with banks and other financial institutions	**48,535**	**41,490**

Amounts due from the National Bank of the Republic of Cuba

As at 30 June 2014, the Group placed deposits with the National Bank of the Republic of Cuba (without credit rating) in the amount of EUR 34,967 thousand (31 December 2013: EUR 34,967 thousand). As part of restructuring of reciprocal claims and liabilities, the 100th meeting of the IIB Council approved an Agreement under which the parties confirmed the debt of the Republic of Cuba to IIB, converted the debt into the Group's functional currency and made a partial write off of loans issued to borrowers in the Republic of Cuba (Note 11). Under this Agreement the parties also approved the principles and terms of debt settlement. Despite the restructuring, the Group did not reverse previously accrued allowances for impairment, therefore as at 30 June 2014, the Group created a 100% allowance for impairment of these deposits in the amount of EUR 34,967 thousand (31 December 2013: EUR 34,967 thousand).

(Thousands of Euros)

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

Concentration of deposits with banks and other financial institutions

As at 30 June 2014, the Group had two counterparties (31 December 2013: one counterparty) accounting for over 20% of the Group's total deposits with banks and other financial institutions, except for deposits with the National Bank of the Republic of Cuba.

7. Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss include derivative transactions. Derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions. Derivative financial instruments are either assets or liabilities depending on the fluctuations in the market which can have either favorable or unfavorable effect on these instruments. Thus, the fair value of derivative financial instruments may significantly change depending on potentially favorable or unfavorable conditions.

Foreign currency transactions

The table below shows the fair value of derivative financial instruments as at 30 June 2014 and 31 December 2013 and notional amounts of term contracts for the purchase and sale of foreign currency specifying weighted average contractual exchange rates:

	30 June 2014				
	Notional amount		*Weighted average*	*Fair value*	
	Purchase	*Sale*	*exchange rate*	*Assets*	*Liabilities*
Swaps	RUB 1,950,000 thousand	EUR 39,109 thousand	–	3,824	–
Term foreign currency transactions	EUR 17,900 thousand	USD 24,630 thousand	1.38	–	133
	EUR 5,000 thousand	RUB 262,325 thousand	52.47	–	547

	31 December 2013			
	Notional amount		*Weighted average*	*Fair value*
	Purchase	*Sale*	*exchange rate*	*Assets*
Term foreign currency transactions	EUR 14,400 thousand	USD 19,646 thousand	1.36	151

On 30 April 2014, due to issuing a bond loan (Note 15), the Group concluded cross currency interest rate swaps on an arm's length basis with two Russian credit institutions. These swaps regulate long-term currency risks of the Bank. Payment netting is not applied to the parties' obligations in respect of interest and principal payments.

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

As at 30 June 2014 and 31 December 2013 the Group has positions in the following types of derivatives:

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

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

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

(Thousands of Euros)

8. Available-for-sale investment securities

Available-for-sale investment securities comprise:

	30 June 2014	*31 December 2013*
Held by the Group		
Quoted debt securities		
Government bonds of member countries and bonds of regional governments:		
Eurobonds issued by governments of member countries	26,224	32,126
Bonds of regional governments	3,239	3,252
Government bonds of member countries and bonds of regional governments	**29,463**	**35,378**
Corporate bonds:		
Credit rating from A- to A+	15,148	46,488
Credit rating from BBB- to BBB+	83,452	45,193
Corporate bonds	**98,600**	**91,681**
Total quoted debt securities	**128,063**	**127,059**
Quoted equity instruments		
Credit rating BB	–	2,817
Available-for-sale investment securities	**128,063**	**129,876**
Pledged under repurchase agreements		
Quoted debt securities		
Corporate bonds:		
Credit rating from BBB- to BBB+	17,935	–
Total quoted debt securities	**17,935**	–
Available-for-sale investment securities pledged under repurchase agreements	**17,935**	–

Government bonds of member countries represent EUR-denominated and USD-denominated securities issued and guaranteed by the Ministries of Finance of these countries, maturing in 2017-2020 (31 December 2013: maturing in 2017-2020). The annual coupon rate for these bonds varies from 1.5% to 6.5% (31 December 2013: from 3.6% to 6.5%).

Bonds of regional governments represent EUR-denominated bonds issued by the city of Moscow, maturing in 2016 (31 December 2013: maturing in 2016). The annual coupon rate for these bonds is 5.1% (31 December 2013: 5.1%).

Corporate bonds are represented by the bonds issued by major companies and banks of member countries and EU countries, maturing in 2014-2025 (31 December 2013: maturing in 2016-2023). The annual coupon rate for these bonds varies from 3.0% to 8.1% (31 December 2013: from 2.9% to 7.9%).

9. Held-to-maturity investment securities

As at 30 June 2014, held-to-maturity investment securities included quoted Eurobonds of Corporate Commercial Bank (city of Sofia, Bulgaria) with the carrying amount of EUR 5,974 thousand (31 December 2013: EUR 5,910 thousand).

10. Long-term loans to banks

In H1 2014, the Group continued its lending activity considering priorities set in 2013. The principal lending activity is to facilitate the development of small and medium-sized businesses in the member countries and participate in financing of socially important infrastructure projects in these countries. The Bank considers national development institutes, export and import banks and agencies, international financial organizations and development banks as its key counterparties.

(Thousands of Euros)

10. Long-term loans to banks (continued)

In 2014, the Group provided long-term loans to banks operating in the following countries:

	30 June 2014	*31 December 2013*
Russian Federation	54,846	20,058
Mongolia	26,562	23,522
Socialist Republic of Vietnam	15,160	15,215
Total long-term loans to banks	**96,568**	**58,795**

As at 30 June 2014 and 31 December 2013, outstanding long-term loans to banks are neither past due nor impaired, and allowances for impairment of these loans were not made.

Analysis of collateral for long-term loans to banks

The following table provides an analysis of the portfolio of long-term loans to banks by type of collateral as at 30 June 2014 and 31 December 2013:

	30 June 2014		*31 December 2013*	
	Long-term loans to banks	*Share in the total loans, %*	*Long-term loans to banks*	*Share in the total loans, %*
Pledge of real property (mortgage) and title	5,957	6.2	6,012	10.2
Uncollateralized part of the loans	90,611	93.8	52,783	89.8
Total loans to customers	**96,658**	**100.0**	**58,795**	**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 2014, long-term loans to five banks (31 December 2013: five borrowers) with the total amount of loans to each of them exceeding 10% of total long-term loans to banks were recorded on the Group's statement of financial position. As at 30 June 2014, the total amount of such major loans was EUR 70,006 thousand (31 December 2013: EUR 48,647 thousand).

11. Loans to customers

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

	30 June 2014	*31 December 2013*
Mongolia	23,812	23,935
Republic of Bulgaria	16,847	5,775
Slovak Republic	8,368	7,915
Romania	2,940	–
Total loans to customers	**51,967**	**37,625**
Less: allowance for loan impairment	(3,589)	–
Loans to customers	**48,378**	**37,625**

A summary of overdue loans as at 30 June 2014 and 31 December 2013 is presented below:

	30 June 2014	*31 December 2013*
Total loans for which the principal and/or interest is overdue	8,107	–
Less: allowance for loan impairment	(3,589)	–
Overdue loans to customers	**4,518**	**–**

(Thousands of Euros)

11. Loans to customers (continued)

Allowance for impairment of loans to customers

Movements in allowances for loan impairment by country are as follows:

	Republic of Bulgaria	*Slovak Republic*	*Total*
At 1 January 2014	–	–	–
Net charge/(reversal) for the period	(15)	3,589	**3,574**
Reversal of allowance previously written off	15	–	**15**
At 30 June 2014	**–**	**3,589**	**3,589**
Individual impairment	**–**	**3,589**	**3,589**
Gross amount of loans to customers, individually determined to be impaired, before deducting any individually assessed impairment allowance	**–**	**8,107**	**8,107**

	Russian Federation	*Mongolia*	*Republic of Bulgaria*	*Total*
At 1 January 2013	**69,029**	**5,808**	**2,927**	**77,764**
Net charge/(reversal) for the period	(899)	131	(3)	**(771)**
Effect of repayment of loan of previously sold subsidiary	1,327	–	–	**1,327**
Change in allowance resulting from changes in exchange rates	–	11	–	**11**
At 30 June 2013	**69,457**	**5,950**	**2,924**	**78,331**
Individual impairment	**69,457**	**5,950**	**2,924**	**78,331**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**81,869**	**11,819**	**2,927**	**96,615**

Analysis of collateral

The following table provides an analysis of the customer loan portfolio, net of allowance for impairment, by types of collateral as at 30 June 2014 and 31 December 2013:

	30 June 2014		*31 December 2013*	
	Loans net of allowance for impairment	*Share in the total loans, %*	*Loans net of allowance for impairment*	*Share in the total loans, %*
Pledge of real property (mortgage) and title	25,085	51.9	28,006	74.4
Other	10,507	21.7	–	–
Uncollateralized part of the loans	12,786	26.4	9,619	25.6
Total loans to customers	**48,378**	**100.0**	**37,625**	**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.

As at 30 June 2014, pledge of real property (mortgage) in the amount of EUR 5,138 thousand (31 December 2013: EUR 5,119 thousand) was not registered but the surety bank placed a short-term interest-free collateral deposit with IIB prior to the registration of mortgage in Mongolia (Note 16).

(Thousands of Euros)

11. Loans to customers (continued)

Concentration of loans to customers

As at 30 June 2014, customer loans to five borrowers (31 December 2013: four borrowers) with the total amount of loans to each of the borrowers exceeding 10% of total loans to customers were recorded on the Group's balance sheet. As at 30 June 2014, these loans totaled EUR 48,766 thousand (31 December 2013: EUR 37,625 thousand) and allowances in the amount of EUR 3,589 thousand (31 December 2013: no allowances) have been made for them.

Analysis of loans to customers by industry

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

	30 June 2014	*31 December 2013*
Construction of buildings	20,718	20,188
Communications	10,507	–
Food and beverage	9,434	9,522
Specialized construction	8,107	7,915
Leasing	2,940	–
Other	261	–
	51,967	**37,625**
Less: allowance for loan impairment	(3,589)	–
Total loans to customers	**48,378**	**37,625**

12. Inventories – real estate objects

In January 2013, as part of efforts taken in respect of distressed loans, the Group acquired from the borrower real estate objects (finished apartments) held for resale.

For the six months ended 30 June 2014, the Group sold certain apartments for EUR 579 thousand (for the six months ended 30 June 2013: no sales). The cost of apartments sold for the six months of 2014is EUR 609 thousand (for the six months ended 30 June 2013: no sales).

As at 30 June 2014, the carrying amount of unsold apartments was EUR 4,203 thousand (31 December 2013: EUR 4,929 thousand).

13. Other assets and liabilities

Other assets comprise:

	30 June 2014	*31 December 2013*
Other accounts receivable	8,152	8,109
Advance payments and future period expenses	156	1,111
Deferred tax assets	2	2
	8,310	**9,222**
Less: allowance for impairment of accounts receivable	(109)	(411)
Other assets	**8,201**	**8,811**

The movements in other impairment allowance are as follows:

	30 June 2014	*31 December 2013*
Allowance at 1 January	**411**	**280**
Net (reversal)/charge for the period	(297)	152
Change in allowance resulting from changes in exchange rates	(5)	(21)
Allowance at the end of the period	**109**	**411**

(Thousands of Euros)

13. Other assets and liabilities (continued)

Other liabilities comprise:

	30 June 2014	*31 December 2013*
Other accounts payable	3,817	3,912
Settlements with employees	817	682
Liabilities to transfer ownership of apartments	575	690
Other	372	557
Other liabilities	**5,581**	**5,841**

14. Due to banks and other financial institutions

Due to banks and other financial institutions comprise:

	30 June 2014	*31 December 2013*
Correspondent accounts of banks without rating	–	1
Term deposits of banks:		
Credit rating from BBB- to BBB+	30,127	35,021
Credit rating from BB- to BB+	8,221	–
No credit rating	–	9,445
Repurchase agreements payable	13,716	–
Collateral deposit:		
No credit rating	5,138	5,119
Due to banks and other financial institutions	**57,202**	**49,586**

The Group monitors repurchase agreements and the cost of collateral on a daily basis and pledges/returns additional collateral, if necessary.

Collateral deposit is provided by a Mongolian surety bank for a short term required to register mortgage in Mongolia (Note 11). Collateral deposit does not assume any accrual of interest expense and is placed by the Group on the correspondent account with the Mongolian bank without credit rating (Note 5).

Concentration of deposits from banks and other financial institutions

As at 30 June 2014, the Group has one counterparty accounting for over 20% of the Group's total deposits from banks and other financial institutions (31 December 2013: one counterparty) in the amount of EUR 13,716 thousand (31 December 2013: 10,001 thousand).

15. Long-term loans from banks

As at 30 June 2014, a long-term loan from a bank in the amount of EUR 18,224 thousand maturing in April 2016 (31 December 2013: no loans) was recorded on the Bank's balance sheet.

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(Thousands of Euros)

16. Debt securities issued

On 29 April 2014, the Group issued RUB-denominated bonds, series 01, in the amount of RUB 2 billion (EUR 40,441 thousand) maturing on the 3,640th day after the first day of placement. The coupon rate on bonds was set at 9.9% p.a. and is payable twice a year, with first coupon payment to be paid on 28 October 2014. As at 30 June 2014, the amount of RUB-denominated bonds issued recorded at amortized cost was EUR 43,825 thousand. The Group used the proceeds from the offerings also for expanding its loan portfolio.

On 30 April 2014, as part of placement of RUB-denominated bonds the Bank entered into a cross-currency interest rate swap for the purpose of regulating currency risks (Note 7).

17. Equity

Subscribed and paid-in capital

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

As at 30 June 2014, unpaid portion of the Bank's subscribed capital in the amount of EUR 1,042,391 thousand (31 December 2013: EUR 1,058,685 thousand) is the amount of contributions by the Bank's member countries which have not been made yet and the amount of unallocated equity contributions totaling EUR 296,900 thousand (31 December 2013: EUR 296,900 thousand).

On 27 February 2014, the Government of the Slovak Republic fulfilled its obligations to ensure additional capitalization of the Bank assumed at the 99th regular meeting of the Bank's Council. Slovakia's additional contribution to the Bank's share capital in the amount of EUR 6,294 thousand was credited to the Bank's account.

On 8 May 2014, the Government of the Russian Federation partially fulfilled its obligations to ensure additional capitalization of the Bank. Russia's additional contribution to the Bank's share capital in the amount of EUR 10,000 thousand was credited to the Bank's account.

As a result, paid-in capital of International Investment Bank amounted to EUR 257,609 thousand, and shares of Slovakia and Russia in the Bank's paid-in capital as at 30 June 2014 increased to 8.34% and 58.24%, respectively.

18. Contingencies and loan commitments

Legal

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

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

Insurance

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

(Thousands of Euros)

18. Contingencies and loan commitments (continued)

Commitments and contingencies

At any time the Group has outstanding commitments to extend loans. These commitments take the form of approved loan agreements.

As at 30 June 2014, commitments and contingencies of the Group comprised undrawn loan facilities in the amount of EUR 27,240 thousand (31 December 2013: EUR 53,466 thousand). The amounts of commitments assume that amounts are fully withdrawn.

19. Leases

Group as lessor

The Group provides its real estate for operating leases. As at 30 June 2014, the Group's non-cancellable operating lease rentals amount to EUR 3,285 thousand (31 December 2013: EUR 8,281 thousand) and will be settled within 1 year.

20. Interest income and interest expense

Net interest income comprises:

	For the three-month period ended 30 June		*For the six-month period ended 30 June*	
	2014	*2013*	*2014*	*2013*
Deposits with banks and other financial institutions, including cash and cash equivalents	582	930	1,132	1,772
Available-for-sale investment securities and held-to-maturity investment securities	1,530	1,029	2,583	1,823
Long-term loans to banks	1,139	–	1,995	–
Loans to customers	940	1,172	1,781	3,219
Interest income	**4,191**	**3,131**	**7,491**	**6,814**
Debt securities issued	(723)	–	(723)	–
Due to banks and other financial institutions	(266)	(125)	(378)	(192)
Current customer accounts	(36)	(16)	(65)	(28)
Other borrowed funds	(40)	(5)	(43)	(5)
Interest expenses	**(1,065)**	**(146)**	**(1,209)**	**(225)**
Net interest income	**3,126**	**2,985**	**6,282**	**6,589**

Interest income accrued on impaired loans issued for the six months ended 30 June 2014 amounted to EUR 192 thousand (for the six months ended 30 June 2013: EUR 105 thousand).

21. Net gain/(loss) from foreign currencies

Net gains less losses from foreign currencies comprise:

	For the three-month period ended 30 June		*For the six-month period ended 30 June*	
	2014	*2013*	*2014*	*2013*
Net (loss)/gain from revaluation of assets and liabilities in foreign currencies	(1,773)	(1,433)	(2,828)	(573)
Net gain/(loss) from trading in foreign currencies	2,792	87	2,630	(121)
Net gain/(loss) from foreign currencies	**1,019**	**(1,346)**	**(198)**	**(694)**

(Thousands of Euros)

22. General and administrative expenses

General and administrative expenses comprise:

	For the three-month period ended 30 June		*For the six-month period ended 30 June*	
	2014	*2013*	*2014*	*2013*
Employee compensations and employment taxes	2,469	2,812	5,454	4,783
IT-expenses, inventory and occupancy expenses	282	471	725	802
Depreciation of property and equipment	341	187	684	502
Expenses related to business travel, representative and accommodation expenses	420	379	689	636
Consulting and audit expenses	46	250	84	355
Other	352	396	713	580
General and administrative expenses	**3,910**	**4,495**	**8,349**	**7,658**

23. Risk management

Risk management framework

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

The Group's risk management activities are intended to:

- identify, analyze and manage risks faced by the Bank;
- establish ratios and limits that restrict level of the appropriate types of risks;
- monitor the level of the risk and its compliance with established limits;
- develop and implement regulative and methodological documents as well as software applications that ensure the professional risk management for the bank transactions.

Risk management policies and procedures are reviewed regularly to reflect changing situation on the financial markets.

The risk monitoring system comprises:

- Establishing limits to assume risks based on the respective risk assessment;
- Exercising control over the Group's exposure by means of compliance with the established limits, regular assessment of the Group's risk exposure, and internal audit of risk management systems.

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

- credit risk;
- liquidity risk;
- market risk;
- operational risk.

(Thousands of Euros)

23. Risk management (continued)

Credit risk

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

Portfolio of long-term loans to banks and other financial institutions and customers (less allowance for impairment) by type of collateral is analyzed in Notes 10 and 11.

Credit quality per class of financial assets

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

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

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

As at 30 June 2014 and 31 December 2013, there was no evidence of impairment of long-term loans to banks and all such loans were classified as standard.

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(Thousands of Euros)

23. Risk management (continued)

Credit risk (continued)

The following table provides information on the credit quality of long-term loans to banks (Note 10) and loans to customers (Note 11) as at 30 June 2014:

	Loan amount	*Impairment*	*Loan amount, including impairment*	*Impairment to loan amount ratio, %*
Long-term loans to banks without any signs of impairment identified				
Standard loans				
- *Russian Federation*	54,846	–	54,846	–
- *Mongolia*	26,562	–	26,562	–
- *Socialist Republic of Vietnam*	15,160	–	15160	–
	96,568	**–**	**96,568**	**–**
Loans to customers without any signs of impairment identified				
Standard loans				
- *Mongolia*	23,812	–	23,812	–
- *Republic of Bulgaria*	16,847	–	16,847	–
- *Romania*	2,940	–	2,940	–
Impaired loans to customers				
Overdue for up to 90 days				
- *Slovak Republic*	8,368	(3,589)	4,779	43
	51,967	**(3,589)**	**48,378**	**7**
Total loans	**148,535**	**(3,589)**	**130,896**	**2**

The following table provides information on the credit quality of long-term loans to banks (Note 10) and loans to customers (Note 11) as at 31 December 2013:

	Loan amount	*Impairment*	*Loan amount, including impairment*	*Impairment to loan amount ratio, %*
Long-term loans to banks without any signs of impairment identified				
Standard loans				
- *Mongolia*	23,522	–	23,522	–
- *Slovak Republic*	20,058	–	20,058	–
- *Republic of Bulgaria*	15,215	–	15,215	–
	58,795	**–**	**58,795**	**–**
Loans to customers without any signs of impairment identified				
Standard loans				
- *Mongolia*	23,935	–	23,935	–
- *Slovak Republic*	7,915	–	7,915	–
- *Republic of Bulgaria*	5,775	–	5,775	–
	37,625	**–**	**37,625**	**–**
Total loans	**96,420**	**–**	**96,420**	**–**

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Renegotiated loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual impairment assessment, calculated using the loan's original effective interest rate.

(Thousands of Euros)

23. Risk management (continued)

Liquidity risk

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

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

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

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

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

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

The table below shows the contractual expiry by maturity of the Group's off-balance credit-related commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

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(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:

	30 June 2014								*31 December 2013*						
	On demand and less than 1 month	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Overdue*	*Total*	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Total*
Assets															
Cash and cash equivalents	34,953	–	–	–	–	–	–	**34,953**	20,045	–	–	–	–	–	**20,045**
Deposits with banks and other financial institutions	7,437	28,891	12,207	–	–	–	–	**48,535**	–	23,112	18,378	–	–	–	**41,490**
Financial assets at fair value through profit or loss	–	–	–	3,824	–	–	–	**3,824**	–	97	54	–	–	–	**151**
Available-for-sale investment securities	231	785	11,378	49,255	84,349	–	–	**145,998**	150	674	1,754	44,061	80,420	2,817	**129,876**
Held-to-maturity investment securities	119	5,855	–	–	–	–	–	**5,974**	117		5,793				**5,910**
Long-term loans to banks	–	480	5,693	90,395		–	–	**96,568**	–	374	2014	56,407		–	**58,795**
Loans to customers	–	320	11,693	29,714	1,892	–	4,759	**48,378**	–	430	7,832	27,463	1,900	–	**37,625**
Other assets	237	4,881	2,921	2	–	–	–	**8,041**	472	4,634	2,800	–	–	–	**7,906**
Total assets	**42,977**	**41,214**	**43,892**	**173,190**	**86,241**	**-**	**4,759**	**392,273**	**20,784**	**29,321**	**38,625**	**127,931**	**82,320**	**2,817**	**301,798**
Liabilities															
Due to banks and other financial institutions	(37,054)	(15,387)	(4,761)	–	–	–	–	**(57,202)**	(24,566)	(25,020)	–	–	–	–	**(49,586)**
Current customer accounts	(4,145)	–	–	–	–	–	–	**(4,145)**	(3,313)	–	–	–	–	–	**(3,313)**
Financial liabilities at fair value through profit or loss	(47)	(546)	(87)	–	–	–	–	**(680)**	–	–	–	–	–	–	–
Long-term loans from banks	(85)	–	–	(18,139)	–	–	–	**(18,224)**	–	–	–	–	–	–	–
Debt securities issued	–	–	(738)	(43,087)	–	–	–	**(43,825)**	–	–	–	–	–	–	–
Other liabilities	(1,527)	(281)	(3,773)	–	–	–	–	**(5,581)**	(727)	(2,944)	(1,619)	–	–	–	**(5,290)**
Total liabilities	**(42,858)**	**(16,214)**	**(9,359)**	**(61,226)**	**–**	**–**	**–**	**(129,657)**	**(28,606)**	**(27,964)**	**(1,619)**	**–**	**–**	**–**	**(58,189)**
Net position	**119**	**25,000**	**34,533**	**111,964**	**86,241**	–	**4,759**	**262,616**	**(7,822)**	**1,357**	**37,006**	**127,931**	**82,320**	**2,817**	**243,609**
Accumulated net position	**119**	**25,119**	**59,652**	**171,616**	**257,857**	**257,857**	**262,616**		**(7,822)**	**(6,465)**	**30,541**	**158,472**	**240,792**	**243,609**	
Off-balance credit-related commitments	**–**	**(22,240)**	**(5,000)**	**–**	**–**	**–**	**–**	**(27,240)**	**–**	**(48,466)**	**(5,000)**	**–**	**–**	**–**	**(53,466)**

(Thousands of Euros)

23. Risk management (continued)

Market risk

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

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

Currency risk and price risk

Currency risk is the risk of loss resulting from adverse changes in exchange rates with respect to the Group's open positions in foreign currencies.

The Group applies a VaR methodology to assess currency risks. VaR is a method used in measuring maximum risk of the Bank, i.e. the level of losses on a certain position in relation to a currency, 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.

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

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

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

As at 30 June 2014, final estimation of value at risk with regard to currency risks assumed by the Group was EUR 772 thousand (31 December 2013: EUR 1,211 thousand).

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(Thousands of Euros)

23. Risk management (continued)

Market risk (continued)

The Group's exposure to currency risk as at 30 June 2014 and 31 December 2013 is presented below:

	30 June 2014					*31 December 2013*				
	EUR	*USD*	*RUB*	*Other currencies*	*Total*	*EUR*	*USD*	*RUB*	*Other currencies*	*Total*
Assets										
Cash and cash equivalents	25,906	3,360	324	5,363	**34,953**	9,222	331	5,170	5,322	**20,045**
Deposits with banks and other financial institutions	28,483	19,177	875	–	**48,535**	23,112	16,015	2,363	–	**41,490**
Available-for-sale investment securities	75,412	63,503	7,083	–	**145,998**	102,911	22,940	4,025	–	**129,876**
Held-to-maturity investment securities	–	5,974	–	–	**5,974**	–	5,910	–	–	**5,910**
Long-term loans to banks	75,742	20,826	–	–	**96,568**	41,285	17,510	–	–	**58,795**
Loans to customers	48,378	–	–	–	**48,378**	37,625	–	–	–	**37,625**
Other assets	144	3	7,975	79	**8,201**	590	7	7,309	–	**7,906**
	254,065	**112,843**	**16,257**	**5,442**	**388,607**	**214,745**	**62,713**	**18,867**	**5,322**	**301,647**
Liabilities										
Due to banks and other financial institutions	(168)	(48,605)	(3,291)	(5,138)	**(57,202)**	(19,035)	(25,432)	–	(5,119)	**(49,586)**
Current customer accounts	(3,987)	(158)	–	–	**(4,145)**	(3,162)	(151)	–	–	**(3,313)**
Long-term loans from banks	–	(18,224)	–	–	**(18,224)**	–	–	–	–	–
Debt securities issued	–	–	(43,825)	–	**(43,825)**	–	–	–	–	–
Other liabilities	(3,035)	(176)	(2,329)	(41)	**(5,581)**	(3,064)	(187)	(1,999)	(40)	**(5,290)**
	(7,190)	**(67,163)**	**(49,445)**	**(5,179)**	**(128,977)**	**(25,261)**	**(25,770)**	**(1,999)**	**(5,159)**	**(58,189)**
Net balance sheet position	**246,875**	**45,680**	**(33,188)**	**263**	**259,630**	**189,484**	**36,943**	**16,868**	**163**	**243,458**
Derivative financial instruments										
Claims	22,900	–	42,933	–	**65,833**	14,400	–	–	–	**14,400**
Liabilities	(39,109)	(18,033)	(5,547)	–	**(62,689)**	–	(14,249)	–	–	**(14,249)**
Net balance sheet position including derivative financial instruments	**230,666**	**27,647**	**4,198**	**263**	**262,774**	**203,884**	**22,694**	**16,868**	**163**	**243,609**

(Thousands of Euros)

24. Fair value of financial instruments

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

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

Fair value hierarchy

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

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of their nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

	Valuation date	*Level 1 30 June 2014*	*Level 2 30 June 2014*	*Level 3 30 June 2014*	*Total 30 June 2014*
Assets measured at fair value					
Derivative financial assets	30 June 2014	–	3,824	–	**3,824**
Government bonds of member countries and bonds of regional governments	30 June 2014	25,924	3,539	–	**29,463**
Corporate bonds	30 June 2014	116,535	–	–	**116,535**
Investment property	31 December 2013	–	–	52,488	**52,488**
Property and equipment	31 December 2013	–	–	50,897	**50,897**
Liabilities measured at fair value					
Derivative financial liabilities	30 June 2014	–	680	–	**680**
Assets for which fair values are disclosed					
Cash and cash equivalents	30 June 2014	–	–	34,953	**34,953**
Deposits with banks and other financial institutions	30 June 2014	–	–	48,535	**48,535**
Held-to-maturity investment securities	30 June 2014	5,090	–	–	**5,090**
Long-term loans to banks	30 June 2014	–	–	96,568	**96,568**
Loans to customers	30 June 2014	–	–	48,378	**48,378**
Liabilities for which fair values are disclosed					
Due to banks and other financial institutions	30 June 2014	–	–	57,202	**57,202**
Current customer accounts	30 June 2014	–	–	4,145	**4,145**
Long-term loans from banks	30 June 2014	–	18,224	–	**18,224**
Debt securities issued	30 June 2014	43,825	–	–	**43,825**

(Thousands of Euros)

24. Fair value of financial instruments (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 2013:

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

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(Thousands of Euros)

24. Fair value of financial instruments (continued)

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

	Carrying amount at 30 June 2014 (unaudited)	*Fair value at 30 June 2014 (unaudited)*	*Unrecognized gain/(loss) for 6 months 2014 (unaudited)*	*Carrying amount at 31 December 2013*	*Fair value at 31 December 2013*	*Unrecognized gain/(loss) for 2013*
Financial assets						
Cash and cash equivalents	34,953	34,953	–	20,045	20,045	–
Deposits with banks and other financial institutions	48,535	48,535	–	41,490	41,490	–
Held-to-maturity investment securities	5,974	5,090	(884)	5,910	5,928	18
Long-term loans to banks	96,568	96,568	–	58,795	58,795	–
Loans to customers	48,378	48,378	–	37,625	37,625	–
Financial liabilities						
Due to banks and other financial institutions	57,202	57,202	–	49,586	49,586	–
Current customer accounts	4,145	4,145	–	3,313	3,313	
Long-term loans from banks	18,224	18,224	–	–	–	
Debt securities issued	43,825	43,825	–	–	–	–
Total unrecognized change in unrealized fair value			**(884)**			**18**

Methodologies and assumptions

The methodologies and assumptions used to determine fair values of those financial instruments which are not recorded at fair value in these interim condensed consolidated financial statements are in line with those described in the Bank's financial statements for the year ended 31 December 2013.

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(Thousands of Euros)

25. Segment information

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

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

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

For the six-month period ended 30 June 2014	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	3,776	3,648	67	**7,491**
Net gains from available-for-sale investment securities	–	4,650	–	**4,650**
Income from lease of investment property	–	–	4,091	**4,091**
Other segment income	31	–	631	662
Total income	**3,807**	**8,298**	**4,789**	**16,894**
Interest expenses	(297)	(912)	–	(1,209)
Net losses from trading in foreign currencies	–	(198)	–	(198)
Allowance for loans impairment	(3,574)	–	–	(3,574)
Other segment expenses	(8)	(15)	(809)	(832)
Segment performance results	**(72)**	**7,136**	**4,474**	**11,081**
Other unallocated expense				**(8,349)**
Profit for the year				**2,732**
Segment assets as at 30 June 2014	144,946	239,284	115,789	**505,019**
Segment liabilities as at 30 June 2014	22,416	101,660	5,581	**129,657**

(Thousands of Euros)

25. Segment information (continued)

For the six-month period ended 30 June 2013	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	3,219	3,595	–	**6,814**
Net gains from available-for-sale investment securities	–	5,562	–	**5,562**
Income from lease of investment property	–	–	3,955	**3,955**
Other segment income	983	–	68	**1,051**
Total income	**4,202**	**9,157**	**4,023**	**17,382**
Interest expenses	–	(225)	–	**(225)**
Net losses from trading in foreign currencies	–	(694)	–	**(694)**
Other segment expenses	–	(36)	(110)	**(146)**
Segment performance results	**4,202**	**8,202**	**3,913**	**16,317**
Other unallocated expense				**(7,658)**
Profit for the period				**8,659**
Segment assets as at 30 June 2013	100,732	183,307	115,301	**399,340**
Segment liabilities as at 30 June 2013	–	38,552	6,015	**44,567**

As at 30 June 2014, the Bank had one counterparty with lease operations income exceeding 20% of total Bank's income (30 June 2013: one). As at 30 June 2014, income from this counterparty amounted to EUR 2,832 thousand (30 June 2013: EUR 2,712 thousand).

Geographical information

Allocation of the Group's revenue from transactions with external customers and non-current assets based on the location of these customers and assets for the six-months ended 30 June 2014 and 30 June 2013 is presented in the tables below:

	For the six-month period ended 30 June							
	2014				*2013*			
	Russia	*Other member countries*	*Other countries*	*Total*	*Russia*	*Other member countries*	*Other countries*	*Total*
Interest income from external customers	3,355	3,567	568	**7,491**	3,977	2,438	399	**6,814**
Income from lease of investment property	4,091	–	–	**4,091**	3,955	–	–	**3,955**
Revenues from sales of inventory	579	–	–	**579**	–	–	–	**–**
Non-current assets	103,385	–	–	**103,385**	103,480	–	–	**103,480**

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

(Thousands of Euros)

25. Segment information (continued)

Geographical information (continued)

The geographical concentration of the Group's financial assets and liabilities as at 30 June 2014 and 31 December 2013 is presented below:

	30 June 2014									
	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Republic of Cuba*	*Mongolia*	*Socialist Republic of Vietnam*	*Czech Republic*	*Other countries*	*Total*
Assets:										
Cash and cash equivalents	1,026	–	–	–	–	5,138	–	12,002	16,787	**34,953**
Deposits with banks and other financial institutions	29,358	–	–	–	–	18,445	–	–	732	**48,535**
Financial assets at fair value through profit or loss	3,824	–	–	–	–	–	–	–	–	**3,824**
Investment securities:										
- available-for-sale, owned by the Bank	97,460	2,232	3,539	2,083	–	1,738	–	5,863	15,148	**128,063**
- available-for-sale, pledged as collateral under sale and repurchase agreements	17,935	–	–	–	–	–	–	–	–	**17,935**
- held-to-maturity	–	5,974	–	–	–	–	–	–	–	**5,974**
Long-term loans to banks less allowances for impairment	54,846	–	–	–	–	26,562	15,160	–	–	**96,568**
Loans to customers less allowances for impairment	–	16,847	2,940	4,779	–	23,812	–	–	–	**48,378**
Assets	**204,449**	**25,053**	**6,479**	**6,862**	**–**	**75,695**	**15,160**	**17,865**	**32,667**	**384,230**
Liabilities:										
Due to banks and other financial institutions	33,585	4,762	–	–	–	5,138	–	–	13,717	**57,202**
Financial liabilities at fair value through profit or loss	–	–	–	–	–	–	–	–	680	**680**
Long-term loans from banks	18,224	–	–	–	–	–	–	–	–	**18,224**
Debt securities issued	43,825	–	–	–	–	–	–	–	–	**43,825**
Liabilities	**95,634**	**4,762**	**–**	**–**	**–**	**5,138**	**–**	**–**	**14,397**	**119,931**

(Thousands of Euros)

25. Segment information (continued)

Geographical information (continued)

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

(Thousands of Euros)

26. Offsetting of financial instruments

The table below shows financial assets offset against financial liabilities in the consolidated statement of financial position, as at 30 June 2014 and 31 December 2013 as well as the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the consolidated statement of financial position:

30 June 2014	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position Cash collateral received*	*Net amount*
Financial assets					
Cash and cash equivalents	34,953	–	34,953	(5,138)	**29,815**
Total	**34,953**	**–**	**34,953**	**(5,138)**	**29,815**
Financial liabilities					
Due to banks and other financial institutions	57,202	–	57,202	(5,138)	52,064
Total	**57,202**	**–**	**57,202**	**(5,138)**	**52,064**

31 December 2013	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets recognized in the statement of financial position*	*Related amounts not set off in the statement of financial position Cash collateral received*	*Net amount*
Financial assets					
Cash and cash equivalents	20,045	–	20,045	(5,110)	**14,926**
Total	**20,045**	**–**	**20,045**	**(5,119)**	**14,926**
Financial liabilities					
Due to banks and other financial institutions	49,586	–	49,586	(5,110)	44,467
Total	**49,586**	**–**	**49,586**	**(5,119)**	**44,467**

27. Related party disclosures

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

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

(Thousands of Euros)

27. Related party disclosures (continued)

The volumes of related party transactions, outstanding balances as at 30 June 2014 and 31 December 2013, and related expense and income for the six months 2014 and 2013 are as follows:

		30 June 2014		*31 December 2013*	
Consolidated statement of financial position	***Related party***	***Carrying amount***	***Average interest rate, %***	***Carrying amount***	***Average interest rate, %***
Other liabilities	Key management personnel	301	–	120	–

		For the six-month period ended 30 June	
		2014	*2013*
	Related party	***Income/ (expense)***	***Income/ (expense)***
Interest expense on current customer accounts	Key management personnel	(17)	(3)
Net interest expense after allowance for loan impairment		**(17)**	**(3)**
Operating loss		**(17)**	**(3)**
Employee benefits	Key management personnel	(734)	(463)
Compensation for travel expenses and medical insurance	Key management personnel	(71)	(106)
Operating expenses		**(805)**	**(569)**
Net loss for the period		**(822)**	**(572)**

28. Capital adequacy

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

The Basel Committee on Banking Regulations recommends maintaining the ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 30 June 2014, this minimum level was 8% (2013: 8%).

Besides, taking into account the Bank's status as the multilateral development institution and the structure of the Bank's member countries and respective decision of the Council, the capital adequacy ratio was set at the level of not less than 25% as of 30 June 2014 (2013: 25%).

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

(Thousands of Euros)

28. Capital adequacy (continued)

The following table shows the composition of the Group's capital position computed in accordance with the Basel Accord (Basel II), as of 30 June 2014 and 31 December 2013.

	30 June 2014	*31 December 2013*
Equity		
Tier 1 capital	336,296	317,373
Tier 2 capital	31,332	32,370
Total regulatory capital	**367,630**	**349,743**
Risk-weighted assets		
Credit risk	214,793	163,875
Market risk	124,692	117,431
Operational risk	46,227	60,585
Total risk-weighted assets	**385,712**	**341,891**
Total capital expressed as a percentage of risk-weighted assets, % ("capital adequacy ratio")	**95.31%**	**102.30%**
Total tier 1 capital expressed as a percentage of risk-weighted assets, % ("tier 1 capital ratio")-	**87.19%**	**92.83%**

29. Subsequent events

On 11 July 2014, the Government of the Republic of Bulgaria fulfilled its obligations over additional capitalization of the Bank. EUR 12,365 thousand were transferred to the Bank's accounts against additional contribution of the Republic of Bulgaria to the Bank's share capital. As a result, the paid-in capital of International Investment Bank amounted to EUR 269,973 thousand with increase of the share of the Republic of Bulgaria to 15.63%.

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 with Russia as one of the shareholders. Therefore, International Investment Bank is not subject to the restrictive measures.

(The end).