International Investment Bank

Interim condensed separate financial statements

Six months ended 30 June 2014

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EY
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Report on review of interim condensed separate financial statements

To the Council of the International Investment Bank

Introduction

We have reviewed the accompanying interim condensed separate financial statements of the International Investment Bank (the "Bank"), which comprise interim condensed separate statement of financial position as at 30 June 2014, the related interim condensed separate statements of income and comprehensive income for the three-month and the six-month periods then ended, interim condensed separate 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 separate 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 separate 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 separate financial statements are not prepared, in all material respects, in accordance with IAS 34.

Interim condensed consolidated financial statements presented separately

Without qualifying our conclusion, we draw attention to Note 2 to the interim condensed separate financial statements which states that the Bank is the parent entity of the Group of International Investment Bank and that interim condensed consolidated financial statements of the Group prepared in accordance with IAS 34 have been issued separately. We have reviewed the interim condensed consolidated financial statements of the Group of the International Investment Bank as at 30 June 2014 and for the six-month period then ended and issued a report on review of the interim condensed consolidated financial statements dated 19 August 2014 specifying that based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young Vneshaudit

19 August 2014

INTERIM CONDENSED SEPARATE 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	34,901	19,272
Deposits with banks and other financial institutions	6	48,069	39,127
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
Investments in subsidiary	2	11,161	11,161
Investment property		52,488	53,480
Property and equipment		50,894	49,997
Other assets	12	7,706	8,384
Total assets		**505,961**	**413,778**
Liabilities			
Due to banks and other financial institutions	13	59,538	49,586
Financial liabilities at fair value through profit or loss	7	680	–
Current customer accounts		4,145	3,313
Long-term interbank borrowings	14	18,224	–
Debt securities issued	15	43,825	–
Other liabilities	12	5,118	5,144
Total liabilities		**131,530**	**58,043**
Equity	16		
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
Retained earnings less net income for the period		80,831	76,067
Net income for the period		3,252	4,764
Total equity		**374,431**	**355,735**
Total equity and liabilities		**505,961**	**413,778**

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 to 28 are an integral part of these interim condensed separate financial statements.

INTERIM CONDENSED SEPARATE INCOME STATEMENT

(Thousands of Euros)

		For the three-month period ended 30 June		*For the six-month period ended 30 June*	
	Note	***2014***	***2013***	***2014***	***2013***
Interest income	19	4,168	3,123	7,424	6,809
Interest expenses	19	(1,086)	(146)	(1,232)	(225)
Net interest income		**3,082**	**2,977**	**6,192**	**6,584**
(Allowance)/reversal of allowance for impairment of loans	11	(1,987)	(1,358)	(3,574)	771
Net interest income after allowance for loan impairment		**1,095**	**1,619**	**2,618**	**7,355**
Fee and commission income		–	207	31	212
Fee and commission expense		(49)	(16)	(102)	(36)
Net fee and commission (expense)/income		**(49)**	**191**	**(71)**	**176**
Net gains/(losses) from foreign currencies	20	1,047	(1,346)	(182)	(694)
Net gains from available-for-sale investment securities		2,887	1,673	4,650	5,299
Dividend income		–	263	–	263
Income from lease of investment property	18	2,091	1,987	4,091	3,959
Other income/(expenses)		(109)	44	49	67
Net non-interest income		**5,916**	**2,621**	**8,608**	**8,894**
Operating income		**6,962**	**4,431**	**11,155**	**16,425**
Reversal of allowance for impairment of other assets		1	–	1	–
General and administrative expenses	21	(3,629)	(4,204)	(7,710)	(7,092)
Other operating expenses on banking operations		(176)	(66)	(194)	(110)
Operating expenses		**(3,804)**	**(4,270)**	**(7,903)**	**(7,202)**
Net income for the period		**3,158**	**161**	**3,252**	**9,223**

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

INTERIM CONDENSED SEPARATE STATEMENT OF COMPREHENSIVE INCOME

(Thousands of Euros)

	For the three-month period ended 30 June		*For the six-month period ended 30 June*	
	2014	*2013*	*2014*	*2013*
Net income for the period	**3,158**	**161**	**3,252**	**9,223**
Other comprehensive (loss)/income				
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods				
Net unrealized (losses)/gains on available-for-sale investment securities	1,803	(5,188)	(850)	(8,276)
Net other comprehensive (loss)/ income to be reclassified to profit or loss in subsequent periods	**1,803**	**(5,188)**	**(850)**	**(8,276)**
Other comprehensive (loss)/income	**1,803**	**(5,188)**	**(850)**	**(8,276)**
Total comprehensive income for the period	**4,961**	**(5,027)**	**2,402**	**947**

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

INTERIM CONDENSED SEPARATE STATEMENT OF CHANGES IN EQUITY

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*	*Retained earnings*	*Total equity*
At 1 January 2013	**1,300,000**	**(1,134,752)**	**4,340**	**33,375**	**152,134**	**355,097**
Net income for the period	–	–	–	–	9,223	**9,223**
Other comprehensive income for the period	–	–	(8,276)	–	–	**(8,276)**
Total comprehensive income	**–**	**–**	**(8,276)**	**–**	**9,223**	**947**
Subscribed capital withdrawal	–	76,067	–	–	(76,067)	–
At 30 June 2013	**1,300,000**	**(1,058,685)**	**(3,936)**	**33,375**	**85,290**	**356,044**
At 1 January 2014	**1,300,000**	**(1,058,685)**	**214**	**33,375**	**80,831**	**355,735**
Net income for the period	–	–	–	–	3,252	**3,252**
Other comprehensive income for the period	–	–	(850)	–	**–**	**(850)**
Total comprehensive income	–	–	**(850)**	–	**3,252**	**2,402**
Subscribed capital withdrawal (Note 16)	–	16,294	–	–	–	**16,294**
At 30 June 2014	**1,300,000**	**(1,042,391)**	**(636)**	**33,375**	**84,083**	**374,431**

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

INTERIM CONDENSED SEPARATE STATEMENT OF CASH FLOWS

Six months ended 30 June 2014

(Thousands of Euros)

		For the six-month period ended 30 June	
	Note	***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		3,516	2,783
Interest, fees and commissions paid		(473)	(150)
Net receipts/(payments) from trading with foreign currencies		(384)	(121)
Cash flows from lease of investment property		4,091	3,959
General and administrative expenses		(5,909)	(6,345)
Other operating expenses arising from banking transactions		(145)	(110)
Cash flows from operating activities before changes in operating assets and liabilities		**696**	**16**
Net (increase)/decrease in operating assets			
Deposits with banks and other financial institutions		(7,732)	25,506
Long-term loans to banks		(37,631)	–
Loans to customers		(13,939)	(38,623)
Other assets		617	457
Net increase/(decrease) in operating liabilities			
Due to banks and other financial institutions		8,656	29,302
Current customer accounts		831	26
Other liabilities		(37)	(177)
Net cash flows from operating activities		**(48,539)**	**16,507**
Cash flows from investing activities			
Purchase of available-for-sale investment securities		(241,980)	(112,758)
Proceeds from sale and redemption of available-for-sale investment securities		232,363	112,702
Proceeds from redemption of held-to-maturity investment securities		241	(5,958)
Investments in subsidiaries		–	(11,161)
Investment in investment property		(21)	(33)
Acquisition of property and equipment		(573)	(154)
Net cash flows from investing activities		**(9,970)**	**(17,362)**
Cash flows from financing activities			
Raising long-term loans from banks		17,852	–
Issue of debt securities	15	40,441	–
Contributions to paid-in capital	16	16,294	–
Net cash flows from financing activities		**74,587**	**–**
Effect of exchange rate changes on cash and cash equivalents		(449)	30
Net increase/(decrease) in cash and cash equivalents		**15,629**	**(825)**
Cash and cash equivalents, beginning		**19,272**	**8,392**
Cash and cash equivalents, ending	5	**34,901**	**7,567**

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

(Thousands of Euros)

1. Principal activities

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

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

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 Bank 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 Bank operates in accordance with indicative risk appetite values set by the Board.
- The Bank implemented the modern planning system, which will help to ensure the integration and interrelation of strategic, tactical and operating goals and tasks.
- The Bank 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 Bank 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.

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.

(Thousands of Euros)

1. Principal activities (continued)

Member countries of the Bank (continued)

The decisions of the 101st meeting of the Bank's Board (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 Statute.

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

2. Basis of preparation

General

The Bank, as a parent company, prepares interim condensed consolidated financial statements in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*, approved by the International Accounting Standards Board. The interim condensed consolidated financial statements of the IIB Group for the six-month period ended 30 June 2014 was signed and authorized for release on behalf of the Board of the Bank on 19 August 2014.

These interim condensed separate financial statements have been prepared on a separate basis in accordance with IAS 34 *Interim Financial Statements* for the six-month period ended 30 June 2014 and is to be submitted for consideration of the Auditing Committee and the Bank's Council.

The interim condensed separate financial statements do not include all the information and disclosures required in the annual separate financial statements, and should be read in conjunction with the Bank's annual separate financial statements as at 31 December 2013.

Subsidiary

On 2 July 2012, the Bank adopted the decision to establish 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 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 separate financial statements have been prepared under the historical cost convention with the exception of the financial instruments under fair value convention, the changes of which are translated through profit or loss account for the period, available-for-sale financial instruments also stated at fair value, and buildings 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 Bank's functional and presentation currency to be the Euro ("EUR") as it reflects the economic substance of the underlying operations conducted by the Bank and circumstances affecting its operations, because most financial assets and financial liabilities as well as income and expenses of the Bank are denominated in EUR.

These interim condensed separate financial statements are presented in thousands of Euros ("Thousands of Euros"), 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 separate financial statements are consistent with those adopted and described in the separate financial statements of the Bank 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 was not relevant to the Bank, since the Bank 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 Bank.

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 Bank's 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 Bank, since the Bank 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 Bank.

4. Significant accounting judgments and estimates

Assumptions and estimation uncertainty

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

(Thousands of Euros)

4. Significant accounting judgments and estimates (continued)

Assumptions and estimation uncertainty (continued)

Assumptions and estimates adopted by the management of the Bank in the process of applying the accounting policies are consistent with those described in the separate 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 17 – Contingencies and lending commitments.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2014	*31 December 2013*
Cash on hand	**198**	**197**
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
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	**34,901**	**19,272**

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 13). The deposit in the amount of EUR 5,138 thousand is placed by the Bank on the correspondent account of the surety bank.

(Thousands of Euros)

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+	409	–
Credit rating B+	46,928	39,127
Deposits with banks and other financial institutions	**48,069**	**39,127**

Amounts due from the National Bank of the Republic of Cuba

As at 30 June 2014, the Bank 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 Bank's functional currency and made a partial write off of loans issued to borrowers in the Republic of Cuba. Under this Agreement the parties also approved the principles and terms of debt settlement. Despite the restructuring, the Bank did not reverse previously accrued allowances for impairment, therefore as at 30 June 2014, the Bank created a 100% allowance for impairment of these deposits in the amount of EUR 34,967 thousand (31 December 2013: EUR 34,967 thousand).

Concentration of deposits with banks and other financial institutions

As at 30 June 2014, the Bank had two counterparties (31 December 2013: one counterparty) accounting for over 20% of the Bank'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 financial instruments. 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 tables below show 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

(Thousands of Euros)

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

Foreign currency transactions (continued)

	31 December 2013			
	Notional amount		Weighted average exchange rate	Fair value
	Purchase	Sale		Assets
Term foreign currency transactions	EUR 14,400 thousand	USD 19,646 thousand	1.36	151

On 30 April 2014, due to issue of bonds (Note 15), the Bank concluded cross currency interest rate swaps on an arm's length basis with two Russian credit institutions. These swaps manage long-term currency risks of the Bank. Payment netting is not applied to the parties' obligations in respect of interest and principal payments.

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

As at 30 June 2014 and 31 December 2013 the Bank has positions in the following types of derivatives:

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

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

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

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(Thousands of Euros)

8. Available-for-sale investment securities

Available-for-sale investment securities comprise:

	30 June 2014	*31 December 2013*
Held by the Bank		
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
Total quoted equity instruments	**–**	**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).

(Thousands of Euros)

10. Long-term loans to banks

In the first half of 2014, the Bank 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.

In 2014, the Bank 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 created.

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 banks	**96,568**	**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 Bank's statement of financial position. As at 30 June 2014, the total amount of such large loans was EUR 70,006 thousand (31 December 2013: EUR 48,647 thousand).

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(Thousands of Euros)

11. Loans to customers

The Bank 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**	–

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**
Rcovery of allowance previously written off	15	–	**15**
As 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	**70,356**	**5,808**	**2,927**	**79,091**
Net charge/(reversal) for the period	(899)	131	(3)	**(771)**
Change in allowance resulting from changes in exchange rates	–	11	–	**11**
As 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 to customers, individually determined to be impaired, before deducting any individually assessed impairment allowance	**81,818**	**11,801**	**2,924**	**96,543**

(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 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 13).

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 them exceeding 10% of total loans to customers were recorded on the Bank's statement of financial position. As at 30 June 2014, the total amount of such large loans was 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 created for them.

Analysis of loans to customers by industry

The Bank 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**

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(Thousands of Euros)

12. Other assets and liabilities

Other assets comprise:

	30 June 2014	*31 December 2013*
Other accounts receivable	7,675	7,890
Advance payments and future period expenses	140	905
	7,815	**8,795**
Less: allowance for impairment of accounts receivable	(109)	(411)
Other assets	**7,706**	**8,384**

The movements in other impairment allowance are as follows:

	30 June2014	*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**

Other liabilities comprise:

	30 June 2014	*31 December 2013*
Other accounts payable	4,390	3,911
Settlements with employees	728	682
Other	–	551
Other liabilities	**5,118**	**5,144**

13. 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	2,335	9,445
Repurchase agreements payable	13,717	–
Collateral deposit		
No credit rating	5,138	5,119
Due to banks and other financial institutions	**59,538**	**49,586**

The Bank 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 Bank on the correspondent account with the Mongolian bank without credit rating (Note 5).

(Thousands of Euros)

13. Due to banks and other financial institutions (continued)

Concentration of deposits from banks and other financial institutions

As at 30 June 2014, the Bank has one counterparty accounting for over 20% of the Bank's total deposits from banks and other financial institutions (31 December 2013: one counterparty) in the amount of EUR 13,717 thousand (31 December 2013: EUR 10,001 thousand).

14. 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 was recorded on the Bank's statement of financial position (31 December 2013: no loans).

15. Debt securities issued

On 29 April 2014, the Bank 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 Bank 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 managing currency risks (Note 7).

16. Equity

Subscribed and paid-in capital

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

As at 30 June 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 for additional capitalization of the Bank taken at the 99th meeting of the Bank's Council. Slovakia's additional contribution to the Bank's paid-in 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 for additional capitalization of the Bank. Russia's additional contribution to the Bank's paid-in 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.

(Thousands of Euros)

17. Contingencies and loan commitments

Legal

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

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

Insurance

The Bank insured its group of buildings, equipment and car park as well as its own liability against damages caused by operating assets of a hazardous nature. However, the Bank does not insure the possibility of temporarily discontinued operations or the Bank's obligations to third parties.

Commitments and contingencies

At any time the Bank 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 Bank 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 will be fully withdrawn.

18. Leases

Bank as lessor

The Bank provides its investment property for operating leases. As at 30 June 2014, the Bank's non-cancellable operating lease liabilities amount to EUR 3,285 thousand (31 December 2013: EUR 8,281 thousand) and will be settled within 1 year.

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(Thousands of Euros)

19. 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	561	921	1,065	1,763
Available-for-sale investment securities and held-to-maturity investment securities	1,530	1,029	2,583	1,823
Long-term loans to banks	1,094	–	1,995	–
Loans to customers	983	1,173	1,781	3,223
Interest income	**4,168**	**3,123**	**7,424**	**6,809**
Debt securities issued	(723)	–	(723)	–
Due to banks and other financial institutions	(287)	(125)	(401)	(192)
Current customer accounts	(36)	(16)	(65)	(28)
Other borrowed funds	(40)	(5)	(43)	(5)
Interest expenses	**(1,086)**	**(146)**	**(1,232)**	**(225)**
Net interest income	**3,082**	**2,977**	**6,192**	**6,584**

Interest income accrued on impaired loans issued for the six-month period ended 30 June 2014 amounted to EUR 192 thousand (30 June 2013: EUR 105 thousand).

20. 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	(1,745)	(1,433)	(2,812)	(573)
Net gain/(loss) from trading in foreign currencies	2,792	87	2,630	(121)
Net gain/(loss) from foreign currencies	**1,047**	**(1,346)**	**(182)**	**(694)**

21. 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	2,303	2,635	5,094	4,379
IT-expenses, inventory and occupancy expenses	281	453	711	768
Depreciation of property and equipment	342	288	683	596
Expenses related to business travel, representative and accommodation expenses	445	376	686	626
Consulting and audit expenses	–	238	2	336
Other	258	214	534	387
General and administrative expenses	**3,629**	**4,204**	**7,710**	**7,092**

(Thousands of Euros)

22. Risk management

Risk management framework

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

The risk monitoring system comprises:

- Establishing limits to assume risks based on the respective risk assessment.
- Exercising control over the Bank's exposure by means of compliance with the established limits, regular assessment of the Bank's risk exposure and internal audit of risk management systems.

The Bank identifies the following major risks inherent to its various activities:

- credit risk;
- liquidity risk;
- market risk;
- operational risk.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its counterparty fails to discharge its contractual financial obligations to the Bank, or discharged them untimely 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 management reporting purposes, the Bank 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 the Bank's 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.

(Thousands of Euros)

22. Risk management (continued)

Credit risk (continued)

As at 30 June 2014, there was no evidence of impairment of long-term loans to banks and all such loans were classified as standard.

The following table provides information on the credit quality of long-term loans to banks (Note 10) and loans to customers (Note 11) as at 30 June 2014:

	Loan amount	*Impairment*	*Loan amount, less 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	–	15,160	–
	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	–
- *Slovak Republic*	261	–	261	–
Impaired loans to customers				
Overdue for up to 90 days				
- *Slovak Republic*	8,107	(3,589)	4,518	44
	51,967	**(3,589)**	**48,378**	**7**
Total loans	**148,535**	**(3,589)**	**144,946**	2

The following table provides information on the credit quality of the loans issued and included in the Bank's loan portfolio as at 31 December 2013:

	Loan amount	*Impairment*	*Loan amount, less 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*	23,935	–	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**	–

(Thousands of Euros)

22. Risk management (continued)

Credit risk (continued)

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

Liquidity risk

Liquidity risk is the risk of loss resulting from the Bank's inability to meet its payment obligations in full when they fall due under normal and stress circumstances. Liquidity risk results from imbalance in the Bank's financial assets' and financial liabilities' maturity structure and amounts (also due to untimely discharge of financial obligations by one or several counterparties of the Bank) and/or an unforeseen need of immediate and simultaneous discharge of its financial obligations.

The Bank'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 Bank's reputation.

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

- liquidity has priority over profitability;
- 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 Bank;
- forecasting of cash flows.

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

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

The table below shows the contractual expiry by maturity of the Bank's off-balance credit-related commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be withdrawn.

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(Thousands of Euros)

22. 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 balance sheet 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*	*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*	*Total*
Assets															
Cash and cash equivalents	34,901	–	–	–	–	–	–	**34,901**	19,272	–	–	–	–	–	**19,272**
Deposits with banks and other financial institutions	7,437	28,891	11,741	–	–	–	–	**48,069**	–	23,112	16,015	–	–	–	**39,127**
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	2,014	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	4,599	2,728	2	–	–	–	**7,566**	180	4,508	2,791	–	–	–	**7,479**
Total assets	**42,925**	**35,075**	**49,088**	**173,190**	**86,241**	**–**	**4,759**	**391,278**	**19,719**	**29,195**	**36,253**	**127,931**	**82,320**	**2,817**	**298,235**
Liabilities															
Due to banks and other financial institutions	(37,054)	(15,387)	(7,097)	–	–	–	–	**(59,538)**	(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	(1,155)	(190)	(3,773)	–	–	–	–	**(5,118)**	(434)	(2,540)	(1,619)	–	–	–	**(4,593)**
Total liabilities	**(42,486)**	**(16,123)**	**(11,695)**	**(61,226)**	**–**	**–**	**–**	**(131,530)**	**(28,313)**	**(27,560)**	**(1,619)**	**–**	**–**	**–**	**(57,492)**
Net position	**439**	**18,952**	**37,393**	**111,964**	**86,241**	**–**	**4,759**	**259,748**	**(8,594)**	**1,635**	**34,634**	**127,931**	**82,320**	**2,817**	**240,743**
Accumulated net position	**439**	**19,391**	**56,784**	**168,748**	**254,989**	**254,989**	**259,748**		**(8,594)**	**(6,959)**	**27,675**	**155,606**	**237,926**	**240,743**	
Off-balance credit-related commitments	**–**	**(22,240)**	**(5,000)**	**–**	**–**	**–**	**–**	**(27,240)**	**–**	**(48,466)**	**(5,000)**	**–**	**–**	**–**	**(53,466)**

(Thousands of Euros)

22. Risk management (continued)

Market risk

Market risk is the risk that the Bank 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 Bank is exposed to market risk with respect to open positions in currency. Equity risk on securities arises from open positions in debt and equity instruments, which are exposed to general and specific market changes.

Currency risk

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

The Bank 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 Bank uses VaR calculations with a 99% confidence level and the projection horizon is 10 days to assess currency risk.

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 Bank for modeling purposes is 250 days. In order to monitor the accuracy of assessment of above mentioned risks, the Bank carries out regular testing (back-testing) based on historical data, which allows evaluating the compliance of risk assessment model with the actual market situation.

As at 30 June 2014, estimation of value at risk with regard to currency risks of the Bank was EUR 772 thousand (31 December 2013: EUR 1,211 thousand).

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22. Risk management (continued)

Currency risk (continued)

The Bank’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	272	5,363	**34,901**	9,222	331	4,397	5,322	**19,272**
Deposits with banks and other financial institutions	28,483	19,177	409	–	**48,069**	23,112	16,015	–	–	**39,127**
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	75,963	20,605	–	–	**96,568**	41,285	17,510	–	–	**58,795**
Loans to customers	48,378	–	–	–	**48,378**	37,625	–	–	–	**37,625**
Other assets	144	3	7,480	79	**7,706**	12	–	7,467	–	**7,479**
	254,065	**112,843**	**15,244**	**5,442**	**387,594**	**214,167**	**62,706**	**15,889**	**5,322**	**298,084**
Liabilities										
Due to banks and other financial institutions	(1,252)	(48,605)	(4,543)	(5,138)	**(59,538)**	(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)	(1,866)	(41)	**(5,118)**	(2,513)	(187)	(1,853)	(40)	**(4,593)**
	(8,274)	**(67,163)**	**(50,234)**	**(5,179)**	**(130,850)**	**(24,710)**	**(25,770)**	**(1,853)**	**(5,159)**	**(57,492)**
Net balance sheet position	**245,791**	**45,680**	**(34,990)**	**263**	**256,744**	**189,457**	**36,936**	**14,036**	**163**	**240,592**
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	**229,582**	**27,647**	**2,396**	**263**	**259,888**	**203,857**	**22,687**	**14,036**	**163**	**240,743**

(Thousands of Euros)

23. 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 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, professional judgment is necessarily required to interpret market data to determine the estimated fair value. While management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Fair value hierarchy

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

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

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of their nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

	Valuation date	*Level 1 30 June 2014 (unaudited)*	*Level 2 30 June 2014 (unaudited)*	*Level 3 30 June 2014 (unaudited)*	*Total 30 June 2014 (unaudited)*
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	–	–	50,894	**50,894**
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	–	–	34,901	**34,901**
Deposits with banks and other financial institutions	30 June 2014	–	–	48,069	**48,069**
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	–	–	59,538	**59,538**
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)

23. Fair value of financial instruments (continued)

Fair value hierarchy (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 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	–	–	49,997	**49,997**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2013	–	–	19,272	**19,272**
Deposits with banks and other financial institutions	31 December 2013	–	–	39,127	**39,127**
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)

23. Fair value of financial instruments (continued)

Fair value hierarchy (continued)

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

	Carrying amount 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	34,901	34,901	–	19,272	19,272	–
Deposits with banks and other financial institutions	48,069	48,069	–	39,127	39,127	–
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	59,538	59,538	–	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 financial statements are in line with those described in the Bank's financial statements for the year ended 31 December 2013.

24. Segment information

For management purposes, the Bank identifies the following three operating segments based on its activities:

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 lease services, Legal Department activities on credit portfolio rehabilitation (during 2013), other operations.

(Thousands of Euros)

24. Segment information (continued)

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured differently from profit or loss in the separate financial statements. The following table presents revenue, income, assets and liabilities of the Bank'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	3,633	15	**7,424**
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	–	47	**78**
Total income	**3,807**	**8,283**	**4,153**	**16,243**
Interest expenses	(297)	(935)	–	**(1,232)**
Net (losses)/gains from trading in foreign currencies	–	(197)	15	**(182)**
Allowance for loans impairment	(3,574)	–	–	**(3,574)**
Other segment expenses	(8)	(15)	(273)	**(296)**
Segment performance results	**(72)**	**7,136**	**3,895**	**10,959**
Other unallocated expense				(7,707)
Income for the period				**3,252**
Segment assets as at 30 June 2014	144,946	238,766	122,249	**505,961**
Segment liabilities as at 30 June 2014	22,446	103,966	5,118	**131,530**

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(Thousands of Euros)

24. Segment information (continued)

Six months ended 30 June 2013	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	3,222	3,587	–	**6,809**
Net gains from available-for-sale investment securities	–	5,562	–	**5,562**
Income from lease of investment property	–	–	3,959	**3,959**
Other segment income	983	–	67	**1,050**
Total income	**4,205**	**9,149**	**4,026**	**17,380**
Interest expenses	–	(261)	–	**(261)**
Net losses from trading in foreign currencies	–	(694)	–	**(694)**
Other segment expenses	–	–	(110)	**(110)**
Segment performance results	**4,205**	**8,194**	**3,916**	**16,315**
Other unallocated expense				(7,092)
Income for the period				**9,223**
Segment assets as at 30 June 2013	100,732	182,300	117,076	**400,108**
Segment liabilities as at 30 June 2013	–	38,552	5,512	**44,064**

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 Bank's income from transactions with external customers and non-current assets based on the location of these customers and assets for the periods 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	3,288	3,568	568	**7,424**	3,971	2,438	400	**6,809**
Income from lease of investment property	4,091	–	–	**4,091**	3,959	–	–	**3,959**
Non-current assets at the end of the period	103,382	–	–	**103,382**	103,441	–	–	**103,441**

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

(Thousands of Euros)

24. Segment information (continued)

Geographical information (continued)

The geographical concentration of the Bank'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	974	–	–	–	–	5,138	–	12,002	16,787	**34,901**
Deposits with banks and other financial institutions	28,892	–	–	–	–	18,445	–	–	732	**48,069**
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	**203,931**	**25,053**	**6,479**	**6,862**	**–**	**75,695**	**15,160**	**17,865**	**32,667**	**383,712**
Liabilities										
Due to banks and other financial institutions	35,921	4,762	–	–	–	5,138	–	–	13,717	**59,538**
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	**97,970**	**4,762**	**–**	**–**	**–**	**5,138**	**–**	**–**	**14,397**	**122,267**

(Thousands of Euros)

24. 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	4,667	–	–	6,500	–	5,119	–	–	2,986	**19,272**
Deposits with banks and other financial institutions	23,112	–	–	–	–	16,015	–	–	–	**39,127**
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	**109,510**	**19,397**	**12,324**	**14,415**	**–**	**70,270**	**15,215**	**–**	**49,625**	**290,756**
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)

25. Offsetting of financial instruments

The table below shows financial assets offset against financial liabilities 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 separate 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	34,901	–	34,901	(5,138)	**29,763**
Total	**34,901**	**–**	**34,901**	**(5,138)**	**29,763**
Financial liabilities					
Due to banks and other financial institutions	59,538	–	59,538	(5,138)	**54,400**
Total	**59,538**	**–**	**59,538**	**(5,138)**	**54,400**

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 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	19,272	–	19,272	(5,119)	**14,153**
Total	**19,272**	**–**	**19,272**	**(5,119)**	**14,153**
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**

26. Related party disclosures

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

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

(Thousands of Euros)

26. 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 of 2014 and 2013 are as follows:

		30 June 2014		*31 December 2013*	
Separate statement of financial position	***Related party***	***Carrying amount***	***Average interest rate, %***	***Carrying amount***	***Average interest rate, %***
Due to banks and other financial institutions	Subsidiary	2,336	7	–	–
Other liabilities	Key management personnel	301	–	120	–
	Subsidiary	269	–	–	–

		For the six-month period ended 30 June	
Separate income statement	***Related party***	***2014 Income/(expense)***	***2013 Income/(expense)***
Interest income on loans to customers	Subsidiary	–	4
Interest expense on accounts and deposits of banks and other financial institutions	Subsidiary	(22)	–
Interest expense on current customer accounts	Key management personnel	(17)	(3)
Net interest (expense)/income after allowance for loans impairment		**(39)**	**1**
Income from lease of investment property	Subsidiary	–	4
Net non-interest income		**–**	**4**
Operating gain/(loss)		**(39)**	**5**
Employee benefits	Key management personnel	(734)	(463)
Compensation for travel expenses and medical insurance	Key management personnel	(71)	(79)
Other general and administrative expenses	Subsidiary	(245)	–
	Key management personnel	(12)	–
Operating expenses		**(1,062)**	**(542)**
Net losses for the period		**(1,101)**	**(537)**

27. 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% (31 December 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 (31 December 2013: 25%).

(Thousands of Euros)

27. Capital adequacy (continued)

From 2013 the Bank 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 Bank's capital position computed in accordance with the Basel Accord (Basel II), as at 30 June 2014 and 31 December 2013.

	30 June 2014	***31 December 2013***
Capital		
Tier 1 capital	327,278	306,221
Tier 2 capital	32,739	33,589
Total regulatory capital	**360,017**	**339,810**
Risk-weighted assets		
Credit risk	214,329	156,151
Market risk	115,072	114,548
Operational risk	46,227	59,016
Total risk-weighted assets	**375,628**	**329,715**
Total capital expressed as a percentage of risk-weighted assets, % ("capital adequacy ratio")	95.84%	103.06%
Total tier 1 capital expressed as a percentage of risk-weighted assets, % ("tier 1 capital ratio")	87.13%	92.87%

28. 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).