International Investment Bank

Interim condensed separate financial statements

Six months ended 30 June 2016

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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 International Investment Bank (hereinafter, the "Bank"), which comprise the interim condensed separate statement of financial position as at 30 June 2016 and the related interim condensed separate statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management of the Bank is responsible for the preparation and presentation of these interim condensed separate financial statements in accordance with IAS 34, *Interim Financial Reporting*. 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 condensed separate financial statements 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 Financial Reporting*.

Interim condensed consolidated financial statements are presented separately.

Without qualifying our opinion, we draw attention to Note 2 to the interim condensed separate financial statements which states that the International Investment Bank is the parent entity of the Group of the International Investment Bank and that interim condensed consolidated financial statements of the Group of the International Investment Bank prepared in accordance IAS 34, *Interim Financial Reporting* have been issued separately. We have performed review of the interim condensed consolidated financial statements of the Group of the International Investment Bank as at and for the six-month period ended 30 June 2016 and expressed an opinion thereon in our Report on review of interim condensed consolidated financial statements dated 16 August 2016 regarding the fact that 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, *Interim Financial Reporting*.

Ernst & Young Vneshaudit LLC

18 August 2016

Moscow, Russia

INTERIM SEPARATE STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

(Thousands of euros)

	Note	*30 June 2016 (unaudited)*	*31 December 2015*
Assets			
Cash and cash equivalents	5	54,000	59,434
Deposits with banks and other financial institutions	6	69,192	100,380
Financial assets at fair value through profit or loss	7	3,021	1,844
Available-for-sale investment securities	8	140,116	93,031
Available-for-sale investment securities pledged under repurchase agreements	8	23,733	23,028
Held-to-maturity investment securities	9	40,962	50,034
Held-to-maturity investment securities pledged under repurchase agreements	9	72,496	73,194
Long-term loans to banks	10	123,183	140,597
Loans to customers	11	293,197	165,742
Investment in subsidiary		145	754
Investment property		33,851	33,819
Property and equipment		66,248	66,392
Other assets	12	1,404	1,709
Total assets		**921,548**	**809,958**
Liabilities			
Due to banks and other financial institutions	13	170,858	113,994
Financial liabilities at fair value through profit or loss	7	16,878	29,898
Current customer accounts		8,361	7,430
Long-term loans from banks	14	72,167	44,187
Debt securities issued	15	234,245	212,724
Other liabilities	12	4,137	4,072
Total liabilities		**506,646**	**412,305**
Equity			
Subscribed capital	16	1,300,000	1,300,000
Callable capital		(986,947)	(996,947)
Paid-in capital		**313,053**	**303,053**
Revaluation reserve for available-for-sale investment securities		551	(1,664)
Revaluation reserve for property and equipment		31,453	31,453
Retained earnings less net income for the period		64,811	62,925
Net income for the period		5,034	1,886
Total equity		**414,902**	**397,653**
Total equity and liabilities		**921,548**	**809,958**

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

Rumyana Kyuchukova — Acting Chairman of the Board

Eugeny Atanassov — Managing Director of the Financial Department

18 August 2016

The accompanying notes 1-25 are an integral part of these interim condensed separate financial statements.

INTERIM SEPARATE INCOME STATEMENT

For the six months ended 30 June 2016

(Thousands of Euros)

		For the six months ended 30 June (unaudited)	
	Note	***2016***	***2015***
Interest income	18	16,237	12,121
Interest expense	18	(13,185)	(7,651)
Net interest income		**3,052**	**4,470**
Reversal of allowance/(allowance) for loan impairment	11	89	(3,595)
Net interest income after allowance for loan impairment		**3,141**	**875**
Fee and commission income		525	85
Fee and commission expense		(137)	(137)
Net fee and commission income/(expense)		**388**	**(52)**
Net gains from revaluation of derivative financial instruments		14,198	7,965
Net losses from revaluation of assets and liabilities in foreign currencies		(21,028)	(9,460)
Net gains from foreign currencies and foreign exchange derivatives		11,026	6,095
Net gains from available-for-sale investment securities		3,186	2,375
Income from lease of investment property		1,782	3,085
Other income/(expenses)		495	(20)
Net non-interest income		**9,659**	**10,040**
Operating income		**13,188**	**10,863**
Reversal of allowance for impairment of other financial assets		14	–
General and administrative expenses	19	(7,984)	(8,178)
Other operating expenses on banking operations		(184)	(937)
Operating expenses		**(8,154)**	**(9,115)**
Net income for the period		**5,034**	**1,748**

The accompanying notes 1-25 are an integral part of these interim condensed separate financial statements.

INTERIM SEPARATE STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

(Thousands of Euros)

	Note	*For the six months ended 30 June (unaudited)* 2016	2015
Net income for the period		**5,034**	**1,748**
Other comprehensive income/(loss)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Net unrealized losses on available-for-sale investment securities		2,215	(1,886)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**2,215**	**(1,886)**
Other comprehensive income/(loss)		**2,215**	**(1,886)**
Total comprehensive income/(loss) for the period		**7,249**	**(138)**

The accompanying notes 1-25 are an integral part of these interim condensed separate financial statements.

INTERIM SEPARATE STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

(Thousands of Euros)

	Subscribed capital	*Callable capital*	*Revaluation reserve for available-for-sale investment securities*	*Revaluation reserve for property and equipment*	*Retained earnings*	*Total equity*
At 31 December 2014	**1,300,000**	**(1,027,382)**	**(999)**	**35,095**	**82,925**	**389,639**
Profit for the period	–	–	–	–	1,748	**1,748**
Other comprehensive loss for the period	–	–	(1,886)	–	–	**(1,886)**
Total comprehensive (loss)/income	**–**	**–**	**(1,886)**	**–**	**1,748**	**(138)**
Contributions to capital (Note 16)	–	20,000	–	–	(10,000)	**10,000**
At 30 June 2015	**1,300,000**	**(1,007,382)**	**(2,885)**	**35,095**	**74,673**	**399,501**
At 31 December 2015	**1,300,000**	**(996,947)**	**(1,664)**	**31,453**	**64,811**	**397,653**
Profit for the period	–	–	–	–	5,034	**5,034**
Other comprehensive income for the period	–	–	2,215	–	–	**2,215**
Total comprehensive income	**–**	**–**	**2,215**	**–**	**5,034**	**7,249**
Contributions to capital (Note 16)	**–**	10,000	–	–	–	**10,000**
At 30 June 2016	**1,300,000**	**(986,947)**	**551**	**31,453**	**69,845**	**414,902**

The accompanying notes 1-25 are an integral part of these interim condensed separate financial statements.

INTERIM SEPARATE STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

(Thousands of Euros)

	Note	For the six months ended 30 June (unaudited) 2016	2015
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		11,600	7,669
Interest, fees and commissions paid		(2,163)	(527)
Net receipts/(payments) from trading with foreign currencies and derivative financial instruments		11,053	6,106
Cash flows from lease of investment property		1,782	3,085
General and administrative expenses		(4,579)	(6,698)
Other operating expenses on banking operations		(5)	(468)
Cash flows from operating activities before changes in operating assets and liabilities		**17,688**	**9,167**
Net (increase)/decrease in operating assets			
Deposits with banks and other financial institutions		29,083	(26,297)
Long-term loans to banks		16,642	4,301
Loans to customers		(129,716)	(21,140)
Other assets		(501)	(3,226)
Net increase/(decrease) in operating liabilities			
Due to banks and other financial institutions		57,898	35,899
Current customer accounts		2,211	274
Other liabilities		227	(191)
Net cash flows from operating activities		**(6,468)**	**(1,213)**
Cash flows from investing activities			
Proceeds from decapitalization of subsidiary		621	–
Purchase of available-for-sale investment securities		(300,436)	(150,049)
Proceeds from sale and redemption of available-for-sale investment securities		267,412	101,453
Proceeds from redemption of held-to-maturity investment securities		3,478	3,816
Investments in investment property		–	(12)
Acquisition of property and equipment		(757)	(1,044)
Net cash flows from investing activities		**(29,682)**	**(45,836)**
Cash flows from financing activities			
Long-term interbank financing raised		60,000	21,448
Long-term interbank financing repaid		(29,569)	(327)
Placement of bonds		–	51,633
Redemption and repurchase of bonds		(10,336)	(45,239)
Contributions to capital		10,000	10,000
Net cash flows from financing activities		**30,095**	**37,515**
Effect of exchange rate changes on cash and cash equivalents		621	(752)
Net (decrease)/increase in cash and cash equivalents		**(5,434)**	**(10,286)**
Cash and cash equivalents, beginning		**59,434**	**65,675**
Cash and cash equivalents, ending	5	**54,000**	**55,389**

The accompanying notes 1-25 are an integral part of these interim condensed separate financial statements.

(Thousands of Euros)

1. Principal activities

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

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

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

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

- Hungary re-entered the Bank in 2015 and in 2016 made the ahead-of-schedule final contribution to the Bank's equity. As at the end of June 2016, Hungary's share in the Bank's paid-in capital was EUR 40 million or 12.78%.
- As a result of the Hungary's re-entering, the respective share of the EU countries in the Bank's equity grew up to 48.72% exceeding the share of the Russian Federation, which decreased to 47.92%.
- The Bank continues to implement a new corporate governance structure and introduce the respective changes to its constituent documents. Following the signing of the Protocol on introducing changes to the Agreement on the Establishment of the International Investment Bank and the Statutes in the end of 2015, the member countries are currently implementing the respective ratification procedures.
- The Bank is assigned the following investment grade ratings: BBB- (outlook stable) by Fitch Ratings, Baa1 (outlook stable) by Moody's and A (outlook stable) by Dagong Global Credit Rating. In June 2016, the Bank was assigned the BBB rating (outlook stable) by Standard&Poor’s.
- In June 2016, the Bank concluded Cooperation agreement on fund raising with the Central Bank of Cuba. The document confirms special status of the International Investment Bank on the territory of Cuba.
- The International Investment Bank completed a large-scale IT-project to upgrade its core banking system (CBS), a digital platform to manage, process and protect the Bank's data. A data-processing center was launched in the International Investment Bank European Regional Office in Bratislava to ensure security and uninterrupted service of the new CBS.

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 2016 %*	*31 December 2015 %*
Russian Federation	47.923	49.505
Republic of Bulgaria	13.481	13.926
Hungary	12.778	9.899
Czech Republic	9.703	10.023
Slovak Republic	6.862	7.088
Romania	5.895	6.089
Republic of Cuba	1.712	1.769
Socialist Republic of Vietnam	1.172	1.211
Mongolia	0.474	0.490
	100.000	**100.000**

(Thousands of Euros)

1. Principal activities (continued)

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

Political and economic developments in the Bank's member countries may have an impact on enterprises operating in these countries. Considering this fact, the Bank performs its operations with reference to the local specific of its member countries to ensure comprehensive assessment and control of credit and operational risks.

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

2. Basis of preparation

General

These interim condensed separate financial statements have been prepared for the six months ended 30 June 2016 in accordance with International Financial Reporting Standard (“IFRS”) IAS 34 Interim Financial Reporting, approved by the International Accounting Standards Board. The interim condensed separate financial statements of the IIB Group for the six months ended 30 June 2016 was signed and authorized for release on behalf of the Board of the Bank on 18 August 2016.

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 2015.

Subsidiary

The Bank is a parent company of the Group, which owns CJSC IIB Capital (a 100% subsidiary established in 2012 for the purpose of the acting of the Bank, in particular, for the property trust of the Bank) as at 30 June 2016.

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

Basis of measurement

These 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.

Functional and presentation currency

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

These interim condensed separate financial statements are presented in thousands of Euros (“Thousands of Euros”), unless otherwise indicated.

(Thousands of Euros)

3. Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed separate financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2015, except for the adoption of new standards effective as at 1 January 2016. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2016, they do not have a material effect on the interim condensed separate financial statements of the Bank. The nature and the impact of each new standard or amendment are described below:

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Bank is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard would not apply.

Amendments to IFRS 11 – Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 *Business Combinations* principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Bank as there has been no interest acquired in a joint operation during the period.

Amendments to IAS 16 and IAS 38:Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Bank given that the Bank has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 – Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 *Agriculture.* Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 and be measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Bank as the Bank does not have any bearer plants.

(Thousands of Euros)

3. Changes in accounting policies (continued)

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. First-time adopters of IFRS electing to use the equity method in their separate financial statements will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Bank's separate financial statements.

Annual improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments do not have any impact on the Bank.

(Thousands of Euros)

3. Changes in accounting policies (continued)

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, the existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

These amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Bank.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Bank as the Bank does not apply the consolidation exception.

4. Significant accounting judgments and estimates

Assumptions and estimation uncertainty

In the process of applying the Bank's accounting policies, management has made its professional judgments, used several assumptions and estimates on determining the amounts of assets and liabilities recognized in the interim condensed separate financial statements, which have the 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.

Assumptions and estimates adopted by management of the Bank in the process of applying the accounting policies are consistent with those described in the separate financial statements of the Bank for the year ended 31 December 2015.

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

(Thousands of Euros)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Cash on hand	**95**	**66**
Nostro accounts with banks and other financial institutions		
Credit rating from A- to A+	30,568	21,106
Credit rating from BBB- to BBB+	10,475	3,059
Credit rating from BB- to BB+	576	265
Total Nostro accounts with banks and other financial institutions	**41,619**	**24,430**
Short-term deposits with banks:		
Term deposits with banks		
Credit rating from BBB- to BBB+	8,990	18,304
Credit rating from BB- to BB+	1,293	16,634
Credit rating from B- to B+	2,003	–
Total short-term deposits with banks	**12,286**	**34,938**
Cash and cash equivalents	**54,000**	**59,434**

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

6. Deposits with banks and other financial institutions

Deposits with banks and other financial institutions comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Term deposits up to 1 year		
Credit rating from BB- to BB+	113	6,037
Credit rating from B- to B+	60,705	79,276
Total term deposits up to 1 year	**60,818**	**85,313**
Term deposits over 1 year		
Credit rating from A- to A+	4,365	15,067
Credit rating from BB- to BB+	4,009	–
Total term deposits over 1 year	**8,374**	**15,067**
Total deposits with banks and other financial institutions	**69,192**	**100,380**

Amounts due from the Central Bank of the Republic of Cuba

	30 June 2016 (unaudited)	*31 December 2015*
Term deposits with the Central Bank of the Republic of Cuba without credit rating	34,967	34,967
Less: allowance for impairment	(34,967)	(34,967)
Term deposits with the Central Bank of the Republic of Cuba	**–**	**–**

Concentration of deposits with banks and other financial institutions

As at 30 June 2016, the Bank had three counterparties (31 December 2015: one) accounting for over 20% of the Group's total deposits with banks and other financial institutions, except for deposits with the Central Bank of the Republic of Cuba.

(Thousands of Euros)

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 2016 and 31 December 2015 and notional amounts of term contracts for the purchase and sale of foreign currency specifying weighted average contractual exchange rates.

	30 June 2016 (unaudited)				
	Notional amount		*Weighted average exchange rate*	*Fair value*	
	Purchase	*Sale*		*Assets*	*Liabilities*
Foreign currency transactions and swaps					
Swaps	12,136,720 RUB'000	185,913 EUR'000	65.28	2,422	14,303
	110,300 RON'000	24,972 EUR'000	4.42	–	621
	95,000 EUR'000	107,391 USD'000	1.13	–	1,849
	2,830 EUR'000	21,000 CNY'000	7.42	–	11
Term foreign currency transactions	34,000 EUR'000	37,282 USD'000	1.10	599	94
Financial instruments at fair value through profit or loss				**3,021**	**16,878**

	31 December 2015				
	Notional amount		*Weighted average exchange rate*	*Fair value*	
	Purchase	*Sale*		*Assets*	*Liabilities*
Foreign currency transactions and swaps					
Swaps	12,136,720 RUB'000	185,914 EUR'000	65.28	–	29,034
	110,300 RON'000	24,972 EUR'000	4.42	–	864
	61,000 EUR'000	64,982 USD'000	1.07	1,775	–
Term foreign currency transactions	30,000 EUR'000	32,721 USD'000	1.09	69	–
Financial instruments at fair value through profit or loss				**1,844**	**29,898**

Due to issuing bond loans denominated in currencies other than the functional currency of the Bank (Note 15), the Bank concluded cross currency interest rate swaps and currency forwards on an arm's length basis with major international and Russian credit institutions. These swaps are used to 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.

(Thousands of Euros)

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

Foreign currency transactions (continued)

As at 30 June 2016 and 31 December 2015, the Bank has positions in the following types of derivatives:

Forwards: Forwards 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 changes in the forward EUR to RUB exchange rate.

8. Available-for-sale investment securities

Available-for-sale investment securities comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Owned by the Bank		
Quoted debt securities		
Government bonds of member countries and bonds of regional governments:		
Eurobonds issued by governments of member countries	98,854	93,027
Government bonds of member countries and bonds of regional governments	**98,854**	**93,027**
Corporate bonds		
Credit rating from AAA- to AAA+	1,866	–
Credit rating from AA- to AA+	916	–
Credit rating from A- to A+	37,546	–
Credit rating from BB- to BB+	930	–
Corporate bonds	**41,258**	**–**
Total quoted debt securities	**140,112**	**93,027**
Quoted equity instruments		
No credit rating	4	4
Total quoted equity instruments	**4**	**4**
Available-for-sale investment securities	**140,116**	**93,031**
Pledged under repurchase agreements		
Quoted debt securities		
Eurobonds issued by governments of member countries	22,317	21,646
Total Eurobonds issued by governments of member countries	**22,317**	**21,646**
Corporate bonds		
Credit rating from BBB- to BBB+	1,416	1,382
Corporate bonds	**1,416**	**1,382**
Total quoted available-for-sale debt securities pledged under repurchase agreements	**23,733**	**23,028**

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 2018-2027 (31 December 2015: maturing in 2018-2027). The annual coupon rate for these bonds varies from 2.0% to 6.3% (31 December 2015: from 2.0% to 6.0%).

Corporate bonds are represented by the bonds issued by European development banks and major international credit institutions maturing in 2020-2025 (31 December 2015: maturing in 2020). The annual coupon rate for these bonds varies from 0.6% to 5.0% (31 December 2015: 5.0%).

(Thousands of Euros)

9. Held-to-maturity investment securities

Held-to-maturity investment securities comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Owned by the Bank		
Quoted debt securities		
Eurobonds issued by governments of member countries	1,438	1,272
Government bonds of member countries	**1,438**	**1,272**
Corporate bonds		
Credit rating from BBB- to BBB+	16,967	17,442
Credit rating from BB- to BB+	22,557	31,320
Corporate bonds	**39,524**	**48,762**
Total quoted held-to-maturity debt securities	**40,962**	**50,034**
Held-to-maturity investment securities pledged under repurchase agreements		
Quoted debt securities		
Eurobonds issued by governments of member countries	10,631	10,489
Government bonds of member countries	**10,631**	**10,489**
Corporate bonds		
Credit rating from BB- to BB+	61,865	62,705
Corporate bonds	**61,865**	**62,705**
Total held-to-maturity investment securities pledged under repurchase agreements	**72,496**	**73,194**

Government bonds of member countries represent EUR-denominated and RUB-denominated securities issued and guaranteed by the Ministries of Finance of these countries, maturing in 2018-2020 (31 December 2015: maturing in 2018-2020). The annual coupon rate for these bonds varies from 3.6% to 7.9% (31 December 2015: from 3.6% to 7.9%).

Corporate bonds are represented by the bonds issued by major companies and banks of member countries and EU countries, maturing in 2017-2023 (31 December 2015: maturing in 2016-2023). The annual coupon rate for these bonds varies from 3.0% to 7.8% (31 December 2015: from 3.0% to 7.9%).

10. Long-term loans to banks

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.

The Bank provided long-term loans to banks operating in the following countries:

	30 June 2016 (unaudited)	*31 December 2015*
Mongolia	50,778	43,044
Russian Federation	39,361	64,223
Socialist Republic of Vietnam	33,044	33,330
Total long-term loans to banks	**123,183**	**140,597**

As at 30 June 2016 and 31 December 2015, outstanding long-term loans to banks are neither past due nor impaired, and allowances for impairment of these loans were not made.

(Thousands of Euros)

10. Long-term loans to banks (continued)

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 2016 and 31 December 2015:

	30 June 2016 (unaudited)		*31 December 2015*	
	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	8,695	7.1	6,933	4.9
Uncollateralized part of the loans	114,488	92.9	133,664	95.1
Total long-term loans to banks	**123,183**	**100.0**	**140,597**	**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 2016, long-term loans to five banks (31 December 2015: five banks) 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 balance sheet. As at 30 June 2016, the total amount of such major loans was EUR 82,159 thousand (31 December 2015: EUR 85,238 thousand) and no impairment allowances (31 December 2015: no allowances) has been made for them.

11. Loans to customers

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

	30 June 2016 (unaudited)	*31 December 2015*
Republic of Bulgaria	115,220	57,917
Romania	32,324	25,844
Russian Federation	28,959	28,160
Mongolia	20,947	21,890
Czech Republic	19,911	–
Slovak Republic	8,406	23,437
Other countries	77,096	18,249
Loans to customers	**302,863**	**175,497**
Less: allowance for loan impairment	(9,666)	(9,755)
Loans to customers less allowance for impairment	**293,197**	**165,742**

The information on the overdue loans as at 30 June 2016 and 31 December 2015 is stated below:

	30 June 2016 (unaudited)	*31 December 2015*
Loans with overdue principal and/or interest	14,769	14,858
Less: allowance for loan impairment	(9,666)	(9,755)
Overdue loans to customers	**5,103**	**5,103**

As at 30 June 2016 and 31 December 2015, there were no overdue but not impaired loans.

(Thousands of Euros)

11. Loans to customers (continued)

Allowance for impairment of loans to customers

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

	Slovak Republic	*Republic of Bulgaria*	*Total*
At 1 January 2016	**3,000**	**6,755**	**9,755**
Net (reversal)/charge for the period	–	(89)	**(89)**
At 30 June 2016 (unaudited)	**3,000**	**6,666**	**9,666**
Individual impairment	**3,000**	**6,666**	**9,666**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**8,103**	**6,666**	**14,769**

	Slovak Republic	*Republic of Bulgaria*	*Total*
At 1 January 2015	**3,589**	–	**3,589**
Net (reversal)/charge for the period	(589)	6,755	**6,166**
At 31 December 2015	**3,000**	**6,755**	**9,755**
Individual impairment	**3,000**	**6,755**	**9,755**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**8,103**	**6,755**	**14,858**

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 2016 and 31 December 2015:

	30 June 2016 (unaudited)		*31 December 2015*	
	Loans net of allowance for impairment	*Share in the total loans, %*	*Loans net of allowance for impairment*	*Share in the total loans, % %*
State guarantees	71,241	24.3	18,249	11.0
Pledge of real property (mortgage) and title	33,252	11.3	35,896	21.6
Corporate guarantees	19,911	6.8	–	–
Pledge of right of claim	19,343	6.6	18,492	11.2
Pledge of shares	14,917	5.1	29,952	18.1
Pledge of equipment and goods in turnover	12,865	4.4	13,281	8.0
Pledge of vehicles	3,308	1.1	–	–
Uncollateralized part of the loans	118,360	40.4	49,872	30.1
Total loans to customers	**293,197**	**100.0**	**165,742**	**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.

During 2016 the Bank financed the borrower in the amount EUR 50,251 thousand under syndicated bridge lending for the period of bond emission of the borrower. This loan was showed as uncollateralized in the table above.

Concentration of loans to customers

As at 30 June 2016, loans to three borrowers (31 December 2015: two borrowers) with the total amount of loans to each of the three borrowers exceeding 10% of total loans to customers were recorded on the Bank's balance sheet. As at 30 June 2016, these loans comprised EUR 121,511 thousand (31 December 2015: EUR 40,991 thousand) in total and no impairment allowances (31 December 2015: no allowances) has been made for them.

(Thousands of Euros)

11. Loans to customers (continued)

Analysis of loans to customers by industry

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

	30 June 2016 (unaudited)	*31 December 2015*
Production and transmission of electrical energy	86,231	14,688
Leases	54,326	44,114
Construction	29,090	29,179
Chemical production	22,393	22,743
Food and beverage	21,820	7,569
Manufacturing of electrical equipment	20,864	21,208
Metallurgicindustry	19,911	–
Land transport	14,999	15,001
Oil refining	9,994	9,989
Agriculture	9,991	4,942
Wholesale trade	6,566	5,418
Production of pharmaceutical products	6,375	–
Other	303	298
Production of vehicles	–	348
Loans to customers	**302,863**	**175,497**
Less: allowance for loan impairment	(9,666)	(9,755)
Total loans to customers less allowance for loan impairment	**293,197**	**165,742**

12. Other assets and liabilities

Other assets comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Financial assets		
Settlements on bank transactions	1,698	1,525
Other accounts receivable on business operations	957	635
Other financial assets	16	–
	2,671	**2,160**
Less: allowance for impairment	(1,680)	(1,544)
Total financial assets less allowance for impairment	**991**	**616**
Non-financial assets		
Assets held for sale – property	89	–
Other non-financial assets	324	1,093
Total non-financial assets	**413**	**1,093**
Total other assets	**1,404**	**1,709**

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

	30 June 2016 (unaudited)	*31 December 2015*
Allowance at 1 January	**1,544**	**1,749**
Net reversal/(charge) for the period	14	(89)
Change in allowance resulting from changes in exchange rates	122	(116)
Allowance at the end of the period	**1,680**	**1,544**

(Thousands of Euros)

12. Other assets and liabilities (continued)

Other liabilities comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Financial liabilities		
Other accounts payable on business operations	484	982
Other accounts payable on bank transactions	82	97
Total financial liabilities	**566**	**1,079**
Non-financial liabilities		
Settlements with employees	3,421	2,943
Other non-financial liabilities	150	50
Total non-financial liabilities	**3,571**	**2,993**
Total other liabilities	**4,137**	**4,072**

13. Due to banks and other financial institutions

Due to banks and other financial institutions comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Due to banks up to 1 year:		
Term deposits from banks and other financial institutions	106,681	49,238
Total due to banks up to 1 year:	**106,681**	**49,238**
Due to banks over 1 year:		
Repurchase agreements	64,177	64,756
Total due to banks over 1 year:	**64,177**	**64,756**
Total due to banks	**170,858**	**113,994**

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

Concentration of deposits from banks and other financial institutions

As at 30 June 2016, the Bank has three counterparties (31 December 2015: two counterparties) accounting for over 20% of the Bank's total deposits from banks and other financial institutions in the amount of EUR 155,168 thousand (31 December 2015: EUR 87,788 thousand).

14. Long-term loans from banks

Long-term loans from banks comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Syndicated loans	58,670	–
Loans from banks	13,497	44,187
Total long-term loans from banks	**72,167**	**44,187**

In June 2016, the Bank received syndicated loan in the amount of EUR 60,000 thousand with a floating rate of EURIBOR (6 months) + 1.75% p.a., and maturing in May 2018.

(Thousands of Euros)

15. Debt securities issued

Debt securities issued comprise:

	Interest rate, % p.a.	*Maturity*	*30 June 2016 (unaudited)*	*31 December 2015*
RUB-denominated bonds	11.7-13.25	2024-2025	178,523	158,067
EUR-denominated bonds	3.5	2019	30,634	30,100
RON-denominated bonds	4.1	2018	25,088	24,557
Total bonds			**234,245**	**212,724**

At the dates of placement of RUB-denominated bonds, the Bank entered into cross-currency interest rate swaps and a currency forward for the purpose of regulating 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 2016, unpaid portion of the Bank's subscribed capital in the amount of EUR 986,947 thousand (31 December 2015: EUR 996,947 thousand) is the amount of contributions by the Bank's member countries which have not been made yet and the amount of unallocated equity contributions totaling EUR 175,500 thousand (31 December 2015: EUR 175,500 thousand) .

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

On 18 May 2015, the Government of Hungary contributed EUR 10,000 thousand to the Bank's equity to resume its full membership. On 28 December 2015, the Government of Mongolia contributed EUR 434.8 thousand to the Bank's equity.

As a result, the paid-in capital of the International Investment Bank totaled EUR 313,053 thousand (31 December 2015: EUR 303,053 thousand).

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

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

	Revaluation reserve for available-for-sale investment securities	*Revaluation reserve for property and equipment*
At 1 January 2015	**(999)**	**35,095**
Net unrealized gains on available-for-sale investment securities	489	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(2,375)	–
At 30 June 2015 (unaudited)	**(2,885)**	**35,095**
At 1 January 2016	**(1,664)**	**31,453**
Net unrealized gains on available-for-sale investment securities	5,401	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(3,186)	–
At 30 June 2016 (unaudited)	**551**	**31,453**

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

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 2016, commitments and contingencies of the Bank comprised off-balance credit-related commitments, in particular undrawn loan facilities and reimbursement obligations.

Off-balance credit-related commitments are presented in the table below as at 30 June 2016 and 31 December 2015.

	30 June 2016 (unaudited)	*31 December 2015*
Undrawn loan facilities	42,449	52,376
Reimbursement obligations	11,844	6,796
Guarantees issued	–	4,556
Total off-balance commitments	**54,293**	**63,728**

18. Interest income and interest expense

Net interest income comprises:

	For the six months ended 30 June (unaudited)	
	2016	*2015*
Loans to customers	6,279	3,547
Long-term loans to banks	3,398	3,275
Held-to-maturity investment securities	2,763	2,978
Deposits with banks and other financial institutions, including cash and cash equivalents	2,092	1,567
Available-for-sale investment securities	1,705	754
Interest income	**16,237**	**12,121**
Debt securities issued	(10,833)	(6,731)
Funds raised under repurchase agreements	(904)	(191)
Long-term loans from banks	(632)	(516)
Due to banks and other financial institutions	(598)	(103)
Current customer accounts	(179)	(110)
Other	(39)	–
Interest expense	**(13,185)**	**(7,651)**
Net interest income	**3,052**	**4,470**

For the six-month period of 2016, there were no interest income accrued on impaired loans (2015: EUR 185 thousand).

(Thousands of Euros)

19. General and administrative expenses

General and administrative expenses comprise:

	For the six months ended 30 June (unaudited)	
	2016	***2015***
Employee compensations and employment taxes	5,643	5,604
Depreciation of property and equipment	870	702
IT-expenses, inventory and occupancy expenses	731	786
Professional services	292	224
Expenses related to business travel, representative and accommodation expenses	279	583
Other	169	279
General and administrative expenses	**7,984**	**8,178**

20. Risk management

Risk management framework

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

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.

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

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

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

The Bank's operations are managed taking into account the level of the risk appetite, approved by the Council of the Bank and integrated into a system of limits and restrictions insuring the acceptable level of risk for aggregated positions, transparent distribution of total risk limit between the activities of the Bank.

(Thousands of Euros)

20. Risk management (continued)

Risk management framework (continued)

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

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

Credit risk

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

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

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

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

As at 30 June 2016 and 31 December 2015, 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 2016 and 31 December 2015:

30 June 2016 (unaudited)	*Loan amount*	*Impairment*	*Loan amount, including impairment*	*Impairment to loan amount ratio, %*
Long-term loans to banks:				
Standard loans				
- Mongolia	50,778	–	50,778	–
- Russian Federation	39,361	–	39,361	–
- Socialist Republic of Vietnam	33,044	–	33,044	–
	123,183	**–**	**123,183**	**–**
Loans to customers:				
Standard loans				
- Republic of Bulgaria	108,554	–	108,554	–
- Romania	32,324	–	32,324	–
- Russian Federation	28,959	–	28,959	–
- Mongolia	20,947	–	20,947	–
- Czech Republic	19,911	–	19,911	–
- Slovak Republic	303	–	303	–
Other	77,096	–	77,096	–
Uncollectible loans				
- Slovak Republic	8,103	(3,000)	5,103	37
- Republic of Bulgaria	6,666	(6,666)	–	100
	302,863	**(9,666)**	**293,197**	**3.2**
Total loans	**426,046**	**(9,666)**	**416,380**	**2.3**

(Thousands of Euros)

20. Risk management (continued)

Credit risk (continued)

31 December 2015	*Loan amount*	*Impairment*	*Loan amount, including impairment*	*Impairment to loan amount ratio, %*
Long-term loans to banks:				
Standard loans				
- Russian Federation	64,223	–	64,223	–
- Mongolia	43,044	–	43,044	–
- Socialist Republic of Vietnam	33,330	–	33,330	–
	140,597	**–**	**140,597**	**–**
Loans to customers:				
Standard loans				
- Republic of Bulgaria	51,162	–	51,162	–
- Russian Federation	28,160	–	28,160	–
- Romania	25,844	–	25,844	–
- Mongolia	21,890	–	21,890	–
- Slovak Republic	15,334	–	15,334	–
Other	18,249	–	18,249	–
Uncollectible loans				
- Slovak Republic	8,103	(3,000)	5,103	37
- Republic of Bulgaria	6,755	(6,755)	–	100
	175,497	**(9,755)**	**165,742**	**5.6**
Total loans	**316,094**	**(9,755)**	**306,339**	**3.1**

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 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.

Liquidity risk

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

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

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

The Bank manages its liquidity position in accordance with planning horizons (up to 6 months) and possible scenarios of movements in liquidity position (stable, stressed).

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

(Thousands of Euros)

20. Risk management (continued)

Liquidity risk (continued)

The liquidity buffer is formed primarily by liquidity reverses, namely securities recognized on the Bank's balance sheet and included in the Lombard lists of the European Central Bank and Bank of Russia. The Bank calculates its liquidity reserves as at the reporting date and for the next six monthly reporting dates (forecast). Liquidity buffer may be used to close the negative net position. As at 30 June 2016, the liquidity buffer amounts to EUR 110.4 million (31 December 2015: EUR 65.1 million).

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

	30 June 2016 (unaudited)	*31 December 2015*
Less than 1 month	23,849	52,376
1 to 3 months	3,523	178
3 months to 1 year	26,921	7,254
1 to 5 years	–	3,920
Off-balance credit-related commitments	**54,293**	**63,728**

(Thousands of Euros)

20. Risk management (continued)

Liquidity risk (continued)

The following table provides an analysis of financial assets and liabilities on the basis of the remaining period from the reporting date to the contractual maturity date. Quoted available-for-sale debt securities were included in "Less than 1 month" category as they are highly liquid investment securities, which the Bank may sell in the short-term on the arm-length basis. Available-for-sale investment securities pledged under repurchase agreements are presented on the basis of periods from the reporting date to the expiry date of respective contractual obligations of the Bank.

	30 June 2016 (unaudited)								*31 December 2015*							
	Less than 1 month	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Past due*	*Total*	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Past due*	*Total*
Assets																
Cash and cash equivalents	54,000	–	–	–	–	–	–	**54,000**	59,434	–	–	–	–	–	–	**59,434**
Deposits with banks and other financial institutions	15,390	–	52,152	1,650	–	–	–	**69,192**	15,352	15,615	54,346	15,067	–	–	–	**100,380**
Financial assets at fair value through profit or loss	599	–	2,028	394	–	–	–	**3,021**	69	–	1,775	–	–	–	–	**1,844**
Available-for-sale investment securities	140,112	17	149	1,398	22,169	4	–	**163,849**	93,027	230	65	22,733	–	4	–	**116,059**
Held-to-maturity investment securities	198	657	10,691	76,714	25,198	–	–	**113,458**	64	972	2,981	76,728	42,483	–	–	**123,228**
Long-term loans to banks	37	18,250	11,183	88,291	5,422	–	–	**123,183**	–	3,160	41,112	76,374	19,951	–	–	**140,597**
Loans to customers	14,798	266	93,506	122,992	56,532	–	5,103	**293,197**	982	1,872	26,573	85,268	45,944	–	5,103	**165,742**
Other assets	85	14	485	407	–	–	–	**991**	147	2	467	–	–	–	–	**616**
Total assets	**225,219**	**19,204**	**170,194**	**291,846**	**109,321**	**4**	**5,103**	**820,891**	**169,075**	**21,851**	**127,319**	**276,170**	**108,378**	**4**	**5,103**	**707,900**
Liabilities																
Due to banks and other financial institutions	(58,021)	–	(52,466)	(60,371)	–	–	–	**(170,858)**	(28,421)	(621)	(20,196)	(64,756)	–	–	–	**(113,994)**
Current customer accounts	(8,361)	–	–	–	–	–	–	**(8,361)**	(7,430)	–	–	–	–	–	–	**(7,430)**
Financial liabilities at fair value through profit or loss	(104)	(100)	(14,304)	(2,370)	–	–	–	**(16,878)**	–	–	(16,191)	(13,707)	–	–	–	**(29,898)**
Long-term loans from banks	–	–	(13,529)	(58,638)	–	–	–	**(72,167)**	(102)	–	(24,529)	(19,556)	–	–	–	**(44,187)**
Debt securities issued	–	–	(102,556)	(131,689)	–	–	–	**(234,245)**	–	–	(40,111)	(172,613)	–	–	–	**(212,724)**
Other liabilities	(122)	–	(442)	(2)	–	–	–	**(566)**	(118)	(929)	(32)	–	–	–	–	**(1 079)**
Total liabilities	**(66,608)**	**(100)**	**(183,297)**	**(253,070)**	**-**	**-**	**-**	**(503,075)**	**(36,071)**	**(1,550)**	**(101,059)**	**(270,632)**	**-**	**-**	**-**	**(409,312)**
Net position	**158,611**	**19,104**	**(13,103)**	**38,776**	**109,321**	**4**	**5,103**	**317,816**	**158,611**	**19,104**	**(13,103)**	**38,776**	**109,321**	**4**	**5,103**	**317,816**
Accumulated net position	**158,611**	**177,715**	**164,612**	**203,388**	**312,709**	**312,713**	**317,816**		**158,611**	**177,715**	**164,612**	**203,388**	**312,709**	**312,713**	**317,816**	

(Thousands of Euros)

20. Risk management (continued)

Market risk

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

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

Currency risk

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

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 financial instrument/currency/precious metals or a portfolio, which shall not be exceeded at a given confidence level and over a specified time horizon.

The Bank assumes that the accuracy of assessment of maximum value at risk (confidence level) is 99%, and the time horizon is 10 days.

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

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

Selection period used by the Bank for modeling purposes depends on types of instruments: 250 days for currency and securities. In order to monitor the accuracy of assessment of 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 2016, final data on value at risk assessment in relation to currency risks assumed by the Bank are represented as follows:

	30 June 2016 (unaudited)	*31 December 2015*
Fixed income securities price risk	1,303	1,536
Currency risk	243	126

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

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

(Thousands of Euros)

20. Risk management (continued)

Market risk (continued)

The Bank has assets and liabilities denominated in several foreign currencies. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Non-monetary financial instruments and financial instruments denominated in functional currency are not exposed to currency risk.

The Bank's exposure to currency risk as at 30 June 2016 and 31 December 2015 is presented below:

	30 June 2016 (unaudited)					*31 December 2015*				
	EUR	*USD*	*RUB*	*Other currencies*	*Total*	*EUR*	*USD*	*RUB*	*Other currencies*	*Total*
Monetary items										
Assets										
Cash and cash equivalents	42,256	10,240	1,341	163	**54,000**	37,296	20,147	1,889	102	**59,434**
Deposits with banks and other financial institutions	69,079	–	113	–	**69,192**	99,990	–	390	–	**100,380**
Available-for-sale investment securities	124,817	36,217	–	2,815	**163,849**	89,426	26,633	–	–	**116,059**
Held-to-maturity investment securities	54,826	56,071	2,561	–	**113,458**	55,416	63,636	4,176	–	**123,228**
Long-term loans to banks	83,113	40,070	–	–	**123,183**	106,063	34,534	–	–	**140,597**
Loans to customers	193,709	99,488	–	–	**293,197**	124,751	40,991	–	–	**165,742**
Other assets	141	79	378	393	**991**	12	–	164	440	**616**
Total monetary assets	**567,941**	**242,165**	**4,393**	**3,371**	**817,870**	**512,954**	**185,941**	**6,619**	**542**	**706,056**
Liabilities										
Due to banks and other financial institutions	(76,025)	(94,833)	–	–	**(170,858)**	(53,406)	(59,706)	(882)	–	**(113,994)**
Current customer accounts	(8,158)	(203)	–	–	**(8,361)**	(7,220)	(210)	–	–	**(7,430)**
Long-term loans from banks	(58,670)	(13,497)	–	–	**(72,167)**	(7,494)	(36,693)	–	–	**(44,187)**
Debt securities issued	(30,634)	–	(178,523)	(25,088)	**(234,245)**	(30,030)	–	(158,099)	(24,595)	**(212,724)**
Other liabilities	(46)	(32)	(483)	(5)	**(566)**	(212)	(1)	(834)	(32)	**(1,079)**
Total monetary liabilities	**(173,533)**	**(108,565)**	**(179,006)**	**(25,093)**	**(486,197)**	**(98,362)**	**(96,610)**	**(159,815)**	**(24,627)**	**(379,414)**
Net balance sheet position excluding derivative financial instruments	**394,408**	**133,600**	**(174,613)**	**(21,722)**	**331,673**	**414,592**	**89,331**	**(153,196)**	**(24,085)**	**326,642**
Derivative financial instruments										
Claims	97,830	–	174,032	24,351	**296,213**	61,068	–	156,879	24,108	**242,055**
Liabilities	(210,885)	(96,344)	–	(2,841)	**(310,070)**	(210,884)	(59,225)	–	–	**(270,109)**
Net balance sheet position including derivative financial instruments	**281,353**	**37,256**	**(581)**	**(212)**	**317,816**	**264,776**	**30,106**	**3,683**	**23**	**298,588**

(Thousands of Euros)

21. 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 Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

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

	Level 1 30 June 2016 (unaudited)	*Level 2 30 June 2016 (unaudited)*	*Level 3 30 June 2016 (unaudited)*	*Total 30 June 2016 (unaudited)*
Assets measured at fair value				
Derivative financial assets	–	3,021	–	**3,021**
Government bonds of member countries and bonds of regional governments	121,172	–	–	**121,172**
Corporate bonds	42,674	–	–	**42,674**
Quoted equity instruments	4	–	–	**4**
Investment property	–	–	33,851	**33,851**
Property and equipment – buildings	–	–	62,362	**62,362**
Liabilities measured at fair value				
Derivative financial liabilities	–	16,878	–	**16,878**
Assets for which fair values are disclosed				
Cash and cash equivalents	95	53,905	–	**54,000**
Deposits with banks and other financial institutions	–	–	69,192	**69,192**
Held-to-maturity investment securities	114,629	–	–	**114,629**
Long-term loans to banks	–	–	118,643	**118,643**
Loans to customers	–	–	291,996	**291,996**
Liabilities for which fair values are disclosed				
Due to banks and other financial institutions	–	–	171,759	**171,759**
Current customer accounts	–	–	8,361	**8,361**
Long-term loans from banks	–	–	72,167	**72,167**
Debt securities issued	–	240,695	–	**240,695**

(Thousands of Euros)

21. Fair values 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 2015:

	Level 1 2015	*Level 2 2015*	*Level 3 2015*	*Total 2015*
Assets measured at fair value				
Derivative financial assets	–	1,844	–	**1,844**
Government bonds of member countries and bonds of regional governments	114,673	–	–	**114,673**
Corporate bonds	1,382	–	–	**1,382**
Quoted equity instruments	–	4	–	**4**
Investment property	–	–	33,819	**33,819**
Property and equipment – buildings	–	–	62,807	**62,807**
Liabilities measured at fair value				
Derivative financial liabilities	–	29,898	–	**29,898**
Assets for which fair values are disclosed				
Cash and cash equivalents	66	59,368	–	**59,434**
Deposits with banks and other financial institutions	–	–	100,380	**100,380**
Held-to-maturity investment securities	114,876	–	–	**114,876**
Long-term loans to banks	–	–	139,891	**139,891**
Loans to customers	–	–	165,742	**165,742**
Liabilities for which fair values are disclosed				
Due to banks and other financial institutions	–	–	113,994	**113,994**
Current customer accounts	–	–	7,430	**7,430**
Long-term loans from banks	–	–	44,187	**44,187**
Debt securities issued	–	214,734	–	**214,734**

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

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

	Carrying amount at 30 June 2016 (unaudited)	*Fair value at 30 June 2016 (unaudited)*	*Unrecognized gain/(loss) for 6 months of 2016 (unaudited)*	*Carrying amount at 31 December 2015*	*Fair value at 31 December 2015*	*Unrecognized gain/(loss) for 2015*
Financial assets						
Cash and cash equivalents	54,000	54,000	–	59,434	59,434	–
Deposits with banks and other financial institutions	69,192	69,192	–	100,380	100,380	–
Held-to-maturity investment securities	113,458	114,629	1,171	123,228	114,876	(8,352)
Long-term loans to banks	123,183	118,643	(4,540)	140,597	139,891	(706)
Loans to customers	293,197	291,996	(1,201)	165,742	165,742	–
Financial liabilities						
Due to banks and other financial institutions	170,858	170,858	–	113,994	113,994	–
Current customer accounts	8,361	8,361	–	7,430	7,430	–
Long-term loans from banks	72,167	72,167	–	44,187	44,187	–
Debt securities issued	234,245	240,695	(6,450)	212,724	214,734	(2,010)
Total unrecognized change in unrealized fair value			**(11,020)**			**(11,068)**

(Thousands of Euros)

22. Segment information

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

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

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

30 June 2016 (unaudited)	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	9,677	6,560	–	**16,237**
Net gains from trading in foreign currencies	–	11,026	–	**11,026**
Net gains from revaluation of derivative financial instruments	–	15,647	–	**15,647**
Net gains from available-for-sale investment securities	–	3,186	–	**3,186**
Net gains from held-to-maturity investment securities	–	251	–	**251**
Reversal of allowance for loan impairment	–	–	89	**89**
Income from lease of investment property	–	–	1,782	**1,782**
Reversal of allowance for impairment of other assets	–	–	14	**14**
Other segment income	471	–	298	**769**
Total income	**10,148**	**36,670**	**2,183**	**49,001**
Interest expense	(5,288)	(7,897)	–	**(13,185)**
Net losses from revaluation of derivative financial instruments	–	(1,449)	–	**(1,449)**
Net losses from revaluation of assets and liabilities in foreign currencies	–	(20,996)	(32)	**(21,028)**
Other segment expenses	(2)	(60)	(259)	**(321)**
Segment results	**4,858**	**6,268**	**1,892**	**13,018**
Other unallocated expenses				**(7,984)**
Profit for the period				**5,034**
Segment assets	416,380	403,401	101,767	**921,548**
Segment liabilities	141,326	361,182	4,138	**506,646**
Other segment information				
Capital expenditures	–	–	566	**566**

(Thousands of Euros)

22. Segment information (continued)

30 June 2015 (unaudited)	*Credit investment activity*	*Treasury*	*Other operations*	*Total*
Income				
External customers				
Interest income	6,822	5,272	27	**12,121**
Net gains from trading in foreign currencies	–	6,108	–	**6,108**
Net gains from available-for-sale investment securities	–	2,375	–	**2,375**
Income from lease of investment property	–	–	3,085	**3,085**
Other segment income	70	–	10	**80**
Total income	**6,892**	**13,755**	**3,122**	**23,769**
Interest expense	(3,292)	(4,359)	–	**(7,651)**
Net losses from trading in foreign currencies	–	–	(13)	**(13)**
Allowance for loan impairment	(3,595)	–	–	**(3,595)**
Other segment expenses	–	(56)	(1,124)	**(1,180)**
Segment results	**5**	**9,340**	**1,985**	**11,330**
Other unallocated expenses				**(9,582)**
Profit for the period				**1,748**
Segment assets	256,007	333,871	115,870	**705,748**
Segment liabilities	83,201	218,981	4,065	**306,247**
Other segment information				
Capital expenditures	–	–	22	**22**

At 30 June 2016, the Bank's revenue from lease operations with two external counterparties (30 June 2015: one counterparty) exceeded 20% of the Bank’s total revenue (30 June 2016: EUR 1,443 thousand; 30 June 2015: EUR 960 thousand).

Geographical information

Allocation of the Bank's revenue from transactions with external customers and non-current assets based on the location of these customers and assets for the six months ended 30 June 2016 and 30 June 2015 is presented in the table below:

	30 June 2016 (unaudited)				*30 June 2015(unaudited)*			
	Russia	***Other member countries***	***Other countries***	***Total***	***Russia***	***Other member countries***	***Other countries***	***Total***
Interest income	4,677	7,961	3,599	**16,237**	6,095	5,001	1,025	**12,121**
Income from lease of investment property	1,782	–	–	**1,782**	3,085	–	–	**3,085**
Non-current assets	100,099	–	–	**100,099**	106,497	–	–	**106,497**

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

(Thousands of Euros)

22. Segment information (continued)

Geographical information (continued)

The geographical concentration of the Bank's financial assets and liabilities based on the location of the Bank's counterparties as at 30 June 2016 and 31 December 2015 is presented below:

	30 June 2016 (unaudited)									
	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Hungary*	*Mongolia*	*Socialist Republic of Vietnam*	*Czech Republic*	*Other countries*	*Total*
Assets										
Cash and cash equivalents	4,947	190	17	25	–	–	–	–	48,821	**54,000**
Deposits with banks and other financial institutions	4,122	–	–	–	–	27,180	–	–	37,890	**69,192**
Financial instruments at fair value through profit or loss	707	–	–	–	–	–	–	–	2,314	**3,021**
Investment securities:										
- available-for-sale	–	30,504	24,124	10,254	29,652	14,283	12,064	1,222	41,746	**163,849**
- held-to-maturity	96,492	–	–	–	–	–	–	–	16,966	**113,458**
Long-term loans to banks less allowances for impairment	39,361	–	–	–	–	50,778	33,044	–	–	**123,183**
Loans to customers less allowances for impairment	28,959	108,554	32,324	5,406	–	20,947	–	19,911	77,096	**293,197**
Assets	**174,588**	**139,248**	**56,465**	**15,685**	**29,652**	**113,188**	**45,108**	**21,133**	**224,833**	**819,900**
Liabilities										
Due to banks and other financial institutions	–	–	–	7,507	8,992	–	–	40,038	114,321	**170,858**
Financial instruments at fair value through profit or loss	11,900	–	621	–	–	–	–	–	4,357	**16,878**
Long-term loans from banks	9,778	20,831	–	–	7,334	–	–	–	34,224	**72,167**
Long-term securities issued	178,523	–	25,088	30,634	–	–	–	–	–	**234,245**
Liabilities	**200,201**	**20,831**	**25,709**	**38,141**	**16,326**	**–**	**–**	**40,038**	**152,902**	**494,148**

(Thousands of Euros)

22. Segment information (continued)

Geographical information (continued)

	31 December 2015									
	Russian Federation	*Republic of Bulgaria*	*Romania*	*Slovak Republic*	*Hungary*	*Mongolia*	*Socialist Republic of Vietnam*	*Czech Republic*	*Other countries*	*Total*
Assets										
Cash and cash equivalents	1,941	219	17	15	–	–	–	–	57,242	**59,434**
Deposits with banks and other financial institutions	6,037	–	–	–	–	30,539	–	–	63,804	**100,380**
Financial instruments at fair value through profit or loss	669	–	–	–	–	–	–	–	1,175	**1,844**
Investment securities:										
- available-for-sale	–	26,889	31,150	13,208	12,056	13,746	11,506	6,118	1,386	**116,059**
- held-to-maturity	105,785	–	–	–	–	–	–	–	17,443	**123,228**
Long-term loans to banks less allowances for impairment	64,223	–	–	–	–	43,044	33,330	–	–	**140,597**
Loans to customers less allowances for impairment	28,160	51,162	25,844	20,437	–	21,890	–	–	18,249	**165,742**
Assets	**206,815**	**78,270**	**57,011**	**33,660**	**12,056**	**109,219**	**44,836**	**6,118**	**159,299**	**707,284**
Liabilities										
Due to banks and other financial institutions	1,613	–	–	7,508	–	–	–	20,086	84,787	**113,994**
Financial instruments at fair value through profit or loss	18,723	–	864	–	–	–	–	–	10,311	**29,898**
Long-term loans from banks	22,953	13,740	–	7,494	–	–	–	–	–	**44,187**
Long-term securities issued	158,067	–	24,557	30,100	–	–	–	–	–	**212,724**
Liabilities	**201,356**	**13,740**	**25,421**	**45,102**	**–**	**–**	**–**	**20,086**	**95,098**	**400,803**

Other countries include countries that not belong to Member countries of the Bank.

(Thousands of Euros)

23. Offsetting of financial instruments

The table below shows the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the separate statement of financial position as at 30 June 2016:

30 June 2016 (unaudited)	*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*		*Net amount*
				Financial instruments	*Cash collateral received*	
Financial assets						
Financial assets pledged under repurchase agreements	96,229	–	96,229	(64,177)	–	**32,052**
Total	**96,229**	**–**	**96,229**	**(64,177)**	**–**	**32,052**
Financial liabilities						
Repurchase agreements with banks	64,177	–	64,177	(64,177)	–	–
Total	**64,177**	**–**	**64,177**	**(64,177)**	**–**	**–**

The table below shows financial assets offset against financial liabilities in the separate statement of financial position as at 31 December 2015 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:

31 December 2015	*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*		*Net amount*
				Financial instruments	*Cash collateral received*	
Financial assets						
Financial assets pledged under repurchase agreements	96,222	–	96,222	(64,756)	–	**31,466**
Total	**96,222**	**–**	**96,222**	**(64,756)**	**–**	**31,466**
Financial liabilities						
Repurchase agreements with banks	64,756	–	64,756	(64,756)	–	**–**
Total	**64,756**	**–**	**64,756**	**(64,756)**	**–**	**–**

(intentionally blank)

(Thousands of Euros)

24. Related party disclosures

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

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

The volumes of related party transactions, outstanding balances as at 30 June 2016 and 31 December 2015, and related expense and income for the six months ended 30 June 2016 and 30 June 2015 are as follows:

		30 June 2016 (unaudited)		*31 December 2015*	
	Related party	***Carrying amount***	***Average interest rate, %***	***Carrying amount***	***Average interest rate, %***
Separate statement of financial position					
Due to banks and other financial institutions	Subsidiary	–	–	621	–
Other liabilities	Key management personnel	346	–	493	–
Other liabilities	Subsidiary	234	–	158	–

		For the six months ended 30 June (unaudited)	
		2016	***2015***
	Related party	***Income/(expense)***	***Income/(expense)***
Interim separate income statement			
Interest expense on amounts due to banks and other financial institutions	Subsidiary	(1)	(44)
Interest expense on current customer accounts	Key management personnel	(34)	(37)
Net interest expense after allowance for loan impairment		**(35)**	**(81)**
Operating losses		**(35)**	**(81)**
Employee benefits	Key management personnel	(572)	(710)
Compensation for travel expenses and medical insurance	Key management personnel	(55)	(74)
Professional services	Subsidiary	(204)	(196)
Operating expenses		**(831)**	**(980)**
Net loss for the period		**(866)**	**(1,061)**

25. Capital adequacy

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

The Basel Committee on Banking Supervision recommends maintaining the ratio of capital to risk-weighted assets ("capital adequacy ratio") above the prescribed minimum level. As at 30 June 2016, this minimum level was 8% (2015: 8%).

(Thousands of Euros)

25. Capital adequacy (continued)

Besides, taking into account the Bank's status as the multilateral development institution as well as the structure of the Bank's member countries, the Bank's Council set the capital adequacy ratio for the Bank at the level of not less than 25% as at 30 June 2016 (2015: 25%).

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 2016 and 31 December 2015.

	30 June 2016 (unaudited)	***31 December 2015***
Capital		
Tier 1 capital	377,719	365,224
Tier 2 capital	32,004	29,789
Total regulatory capital	**409,723**	**395,013**
Risk-weighted assets		
Credit risk	622,772	560,010
Market risk	120,488	70,461
Operational risk	50,683	48,696
Total risk-weighted assets	**793,943**	**679,167**
Total capital expressed as a percentage of risk-weighted assets, % ("capital adequacy ratio")	**51.61%**	**58.16%**
Total tier 1 capital expressed as a percentage of risk-weighted assets, % ("tier 1 capital adequacy ratio")	**47.58%**	**53.78%**

(The end)