

Report on Review of Interim Financial Information of
International Investment Bank
for the six months ended 30 June 2023

December 2023

Report on Review of Interim Financial Information of International Investment Bank

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Report on Review of Interim Financial Information

To the Board of Governors of
International Investment Bank

Introduction

We have reviewed the accompanying interim condensed separate financial statements of International Investment Bank, which comprise of the interim separate statement of financial position as at 30 June 2023, the interim separate income statement, interim separate statement of comprehensive income, interim separate statement of changes in equity and interim separate statement of cash flows for the six months then ended, and selected explanatory notes (interim financial information).

Management of International Investment Bank is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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



**NEW CHALLENGES
NEW SOLUTIONS**

Conclusion

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

G.A. Shinin
Partner
TSATR – Audit Services Limited Liability Company

11 December 2023

Details of the auditor

Name: TSATR – Audit Services Limited Liability Company
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
TSATR – Audit Services Limited Liability Company is a member of Self-regulatory organization of auditors Association "Sodruzhestvo". TSATR – Audit Services Limited Liability Company is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

Details of the entity

Name: International Investment Bank
International Investment Bank is an international organization established on the basis of the Agreement Establishing the International Investment Bank dated 10 July 1970, registered with the United Nations Secretariat on 1 December 1971 under number 11417.
Address: H-1011, Hungary, Budapest, Fő utca, 1.

INTERIM SEPARATE STATEMENT OF FINANCIAL POSITION**At 30 June 2023***(Thousands of euros)*

	<i>Note</i>	<i>30 June 2023</i>	<i>31 December 2022</i>
Assets			
Cash and cash equivalents	5	41,180	163,688
Deposits with banks and other financial institutions	6	192,694	147,844
Derivative financial assets	7	2,753	14,041
Investments at fair value through profit or loss		—	14,219
Securities at fair value through other comprehensive income	8	136,280	156,222
Securities at amortized cost	9	32,237	62,134
Loans to banks	10	97,834	104,005
Loans to customers	11	418,356	543,906
Investment in subsidiary	2	145	145
Investment property		33,392	33,360
Property, equipment and intangible assets		60,583	61,372
Other assets	12	2,055	1,613
Total assets		1,017,509	1,302,549
Liabilities			
Due to banks and other financial institutions	14	184	1,620
Derivative financial liabilities	7	4,616	34,095
Current customer accounts		3,466	7,599
Long-term loans of banks	15	42,690	45,611
Debt securities issued	16	656,049	883,266
Other liabilities	12	2,505	2,866
Total liabilities		709,510	975,057
Equity	18		
Authorized capital		2,000,000	2,000,000
Less: unallocated capital		(1,048,252)	(875,500)
Subscribed capital		951,748	1,124,500
Less: callable capital		(685,972)	(697,376)
Paid-in capital		265,776	427,124
Contributions of withdrawn members	18	92,348	—
Subordinated perpetual deposit	17	69,003	—
Revaluation reserve for securities at fair value through other comprehensive income		(8,284)	(31,956)
Revaluation reserve for property and equipment		7,898	7,898
Cash flow hedge reserve	7	(16,331)	(30,882)
Retained earnings (accumulated loss) less net loss for the period		(44,692)	67,309
Net loss for the period		(57,719)	(112,001)
Total equity		307,999	327,492
Total equity and liabilities		1,017,509	1,302,549

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

Georgy Potapov



Chairperson of the Management Board

Demchigjav Molomjamts


Deputy Chairperson of the Management Board
/ Chief Financial officer

11 December 2023

The accompanying notes 1-29 are an integral part of these interim condensed separate financial statements.

INTERIM SEPARATE INCOME STATEMENT**Six months ended 30 June 2023***(Thousands of euros)*

	<i>Note</i>	<i>For six months ended 30 June (unaudited)</i>	
		<i>2023</i>	<i>2022</i>
Interest income calculated using the EIR method	21	25,405	30,210
Other interest income	21	3,498	10,016
Interest expense calculated using the EIR method	21	(18,035)	(22,256)
Other interest expense	21	(2,585)	(6,790)
Net interest income		8,283	11,180
Net allowance for credit losses on financial instruments	5-6, 8, 10-13, 19	(39,405)	(29,142)
Net interest loss after allowance for loan impairment		(31,122)	(17,962)
Fee and commission income		74	968
Fee and commission expense		(521)	(320)
Net fee and commission (expense)/income		(447)	648
Net losses from operations with foreign currencies and derivatives	22	(9,460)	(80,269)
Net losses from operations with investments at fair value through profit or loss		(35)	(112)
Net losses from operations with investments at fair value through other comprehensive income	8, 11	(1,588)	(7,610)
Net losses from operations with investments at amortized cost	9, 11	(8,096)	(3,512)
Income from lease of investment property	20	1,359	1,279
Other (expense)/income		(1,147)	2,046
Net non-interest loss		(18,967)	(88,178)
Operating loss		(50,536)	(105,492)
General and administrative expenses	23	(8,585)	(8,018)
Net gains/(losses) from sale of loans to customers	11	1,471	(27,387)
Other operating expenses on banking operations		(69)	(132)
Operating expenses		(7,183)	(35,537)
Net loss for the period		(57,719)	(141,029)

INTERIM SEPARATE STATEMENT OF COMPREHENSIVE INCOME**Six months ended 30 June 2023***(Thousands of euros)*

	<i>Note</i>	<i>For six months ended 30 June (unaudited)</i>	
		<i>2023</i>	<i>2022</i>
Net loss for the period		(57,719)	(141,029)
Other comprehensive income/(loss)			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Net change in the fair value of debt instruments at fair value through other comprehensive income	18	6,696	(31,445)
Net unrealized income/(loss) on cash flow hedges	7	14,551	(46,413)
Change in the allowance for expected credit losses related to securities at fair value through other comprehensive income	8, 11	16,976	179
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		38,223	(77,679)
Other comprehensive income/(loss)		38,223	(77,679)
Total comprehensive loss for the period		(19,496)	(218,708)

INTERIM SEPARATE STATEMENT OF CHANGES IN EQUITY**Six months ended 30 June 2023***(Thousands of euros)*

	<i>Authorized capital</i>	<i>Unallocated capital</i>	<i>Callable capital</i>	<i>Subordinated perpetual deposit</i>	<i>Contributions of withdrawn members</i>	<i>Revaluation reserve for securities</i>	<i>Revaluation reserve for property and equipment</i>	<i>Cash flow hedge reserve</i>	<i>Retained earnings</i>	<i>Total equity</i>
At 1 January 2022	2,000,000	(875,500)	(699,631)	–	–	(58)	8,691	(29,792)	67,309	471,019
Loss for the period	–	–	–	–	–	–	–	–	(141,029)	(141,029)
Other comprehensive loss	–	–	–	–	–	(31,266)	–	(46,413)	–	(77,679)
Total comprehensive loss	–	–	–	–	–	(31,266)	–	(46,413)	(141,029)	(218,708)
Contributions to capital (Note 18)	–	–	2,255	–	–	–	–	–	–	2,255
At 30 June 2022 (unaudited)	2,000,000	(875,500)	(697,376)	–	–	(31,324)	8,691	(76,205)	(73,720)	254,566
At 1 January 2023	2,000,000	(875,500)	(697,376)	–	–	(31,956)	7,898	(30,882)	(44,692)	327,492
Loss for the period	–	–	–	–	–	–	–	–	(57,719)	(57,719)
Other comprehensive income	–	–	–	–	–	23,672	–	14,551	–	38,223
Total comprehensive income/(loss)	–	–	–	–	–	23,672	–	14,551	(57,719)	(19,496)
Contributions to capital (Note 18)	–	–	(161,348)	–	–	–	–	–	–	(161,348)
Contributions of withdrawn members (Note 18)	–	(172,752)	172,752	–	92,348	–	–	–	–	92,348
Subordinated perpetual deposit (Note 17)	–	–	–	69,003	–	–	–	–	–	69,003
At 30 June 2023 (unaudited)	2,000,000	(1,048,252)	(685,972)	69,003	92,348	(8,284)	7,898	(16,331)	(102,411)	307,999

The accompanying notes 1-29 are an integral part of these interim condensed separate financial statements.

INTERIM SEPARATE STATEMENT OF CASH FLOWS**Six months ended 30 June 2023***(Thousands of euros)*

	<i>Note</i>	<i>For six months ended 30 June (unaudited)</i>	
		<i>2023</i>	<i>2022</i>
Cash flows from operating activities			
Interest, fees and commissions received		15,847	13,172
Interest, fees and commissions paid		(1,695)	(857)
Realized gains less losses from operations with foreign currencies and derivatives		(25,860)	(27,837)
Cash flows from lease of investment property	20	1,359	1,279
General and administrative expenses		(7,110)	(6,632)
Other operating income on banking operations		390	495
Cash flows from operating activities before changes in operating assets and liabilities		(17,069)	(20,380)
<i>Net (increase)/decrease in operating assets</i>			
Deposits with banks and other financial institutions		344	(95,971)
Loans to banks	10	6,358	11,499
Loans to customers	11	117,713	258,251
Other assets		369	827
<i>Net increase/(decrease) in operating liabilities</i>			
Due to banks and other financial institutions	14	(39,206)	(5,176)
Current customer accounts		(6,693)	(21,938)
Other liabilities		286	175
Net cash flows from operating activities		62,102	127,287
Cash flows from investing activities			
Interest received		866	1,129
Purchase of investments at fair value through profit or loss		(361)	(557)
Purchase of securities at fair value through other comprehensive income	8	(17,270)	(63,242)
Proceeds from sale and redemption of securities at fair value through other comprehensive income	8	58,907	99,052
Proceeds from redemption and sale of securities at amortized cost	9	–	119
Acquisition of investment property		(32)	(17)
Acquisition of property, equipment and intangible assets		(395)	(702)
Net cash flows from investing activities		41,715	35,782
Cash flows from financing activities			
Interest paid		(12,229)	(16,219)
Long-term interbank financing raised	15	–	3,085
Long-term interbank financing repaid	15	(4,000)	(17,000)
Debt securities issued	16	40,277	57,748
Redemption and repurchase of debt securities	16	(245,021)	(95,502)
Contributions to capital		–	2,255
Net cash flows from financing activities		(220,973)	(65,633)
Effect of exchange rate changes on cash and cash equivalents		(5,343)	37
Net (decrease)/increase in cash and cash equivalents		(122,499)	97,473
Cash and cash equivalents, beginning		163,697	89,124
Cash and cash equivalents	5	41,198	186,597
Less: allowance for impairment cash and cash equivalents		(18)	(95)
Cash and cash equivalents, ending		41,180	186,502

The accompanying notes 1-29 are an integral part of these interim condensed separate financial statements.

(Thousands of euros)

1. Principal activities

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

The Bank is an international institution operating on the basis of the intergovernmental agreements: 1) Agreement Establishing the International Investment Bank (the “Agreement on the establishment”) and its Charter; as well as the agreements with host countries: 2) Agreement between the Government of the Russian Federation and IIB regarding the seat of IIB in the Russian Federation of 11 February 2020 (was ratified on 4 February 2021) and 3) Agreement between IIB and the Government of Hungary regarding the Headquarters of IIB in Hungary of 5 February 2019 (entered into force on 28 April 2019). The Agreement on the establishment was ratified by the member countries of the Bank and registered with the Secretariat of the United Nations in December 1971. On 18 August 2018, the revised Agreement on the establishment and Charter, approved by the Protocol Amending the Agreement Establishing the International Investment Bank and its Charter of 8 May 2014, became effective and applicable. The Bank is primarily engaged in commercial lending for the benefit of national investment projects in the member countries of the Bank and for other purposes defined by the Board of Governors of the IIB. The Bank also performs transactions with securities and foreign currencies.

In March 2022 four of the Bank’s Member States made a public statement about their intention to exit the shareholding of IIB. The Czech Republic and the Slovak Republic ceased to be members of the IIB on 27 January 2023 and 29 January 2023 respectively, the Romania on 9 June 2023. Due to the termination of the membership, the accounting for the shares of the Czech Republic, the Slovak Republic and the Romania in the paid-in authorized capital of the Bank was discontinued (Note 18). In February 2023, the Republic of Bulgaria addressed IIB with a termination notice, thus its membership in the Bank will cease from 15 August 2023. On 19 April 2023, the Hungary officially started the procedure of withdrawal procedure from the Bank; it will cease to be the member of the Bank on 19 October 2023. On 30 January 2023, the Board of Governors approved restructuring of the Bank’s paid-in capital. Following this decision, the Bank converted part of the Russian Federation’s share into a subordinated perpetual deposit, which resulted in decrease of its share to 49.901% (Note 17).

On 12 April 2023 U.S. designated IIB to the OFAC SDN list and imposed blocking sanctions against the Bank. As a result, the Bank has been completely deprived from ability to conduct operations in the territory of the European Union and with European entities:

- ▶ Opportunities to work in Europe with accounts in euros and currencies of other participating countries (except Russia) are blocked;
- ▶ The intention of the Bank to pay the bonds denominated in Czech crowns did not take place due to the refusal of the paying agent (Citibank N.A., London) to accept the funds (Note 16);
- ▶ In an attempt to avoid secondary sanctions, almost all banks in Europe have closed IIB’s accounts by the end of May 2023 (Note 6).

Thus, after the imposition of US sanctions, the IIB was deprived of the technical ability to work and fulfill its obligations in Europe (including in Czech crowns, Hungarian forints, Romanian lei, etc.). Since operations in EU and in European currencies were suspended, in order to ensure financial sustainability of the Bank, IIB managed to accumulate a significant RUB-liquidity buffer (Note 24).

IIB faced temporary technical difficulties in receipt of funds related to unilateral actions of European financial institutions that stopped providing payment infrastructure. IIB issues waivers to clients with prolongation of payments terms on a case-by-case basis when it is technically impossible to effect such payments.

Due to the de-facto termination of Hungary’s membership in the International Investment Bank, the basis for further operation of the Bank from its headquarters in Budapest and in the European Union has been exhausted. The Bank has commenced relocation of operations and decision-making activities from Hungary to Russia and was compelled to concentrate all of its functions and operations in Moscow, Russia.

Due to U.S. sanctions and the designation of the Bank to the US OFAC SDN list, the Bank was fully deprived of the access to its own assets/funds in the EU and also was entirely forced out of the European financial market. However, the Bank reiterates its commitment to the high international standards on financial markets and confirms firm determination to fulfil its obligations towards investors. After the IIB’s assets/funds in the EU are unlocked, the Bank intends to fulfill its obligations towards investors, counterparties and stakeholders.

(Thousands of euros)

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

Geopolitical tensions between the Banks' Member States impacted the Bank in 2022 and 2023. Czech Republic and Slovakia withdrew from the Bank's membership on 27 and 29 January respectively, the Romania on 9 June 2023. In February 2023 the Republic of Bulgaria and in April 2023 the Hungary officially started the withdrawal procedure from the Bank and will withdraw from the Bank's membership on 15 August 2023 and 19 October 2023 respectively (Note 29).

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

<i>Member countries</i>	30 June 2023, %	31 December 2022, %
Russian Federation	49.901	47.205
Hungary	27.752	17.269
Republic of Bulgaria	15.880	9.881
Republic of Cuba	3.108	1.934
Mongolia	1.979	1.231
Socialist Republic of Vietnam	1.380	0.859
Czech Republic	—	8.750
Slovak Republic	—	6.759
Romania	—	6.112
	100.000	100.000

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

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

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

Business environment in the member countries

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

A number of the Bank's member countries have officially requested to withdraw from the Bank and as such the Bank is in the process of winding down its operations in connection to those exiting countries.

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**

The Bank, as a parent company, prepares the interim condensed consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") approved by the International Accounting Standards Board. The consolidated financial statements of the IIB Group for the six months ended 30 June 2023 was signed and authorized for release on behalf of the Management Board of the Bank on 11 December 2023.

These interim condensed separate financial statements have been prepared for the six months ended 30 June 2023 in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* approved by the International Accounting Standards Board.

The interim condensed separate financial statements do not include all the information and disclosures required in the annual separate financial statements, and should be read in conjunction with the Bank's annual separate financial statements as at 31 December 2022.

(Thousands of euros)

2. Basis of preparation (continued)

Going concern

Management prepared these interim condensed separate financial statements on a going concern basis. In making this judgment, management considered the Bank's interim separate financial position, current intentions, profitability of operations and available financial resources. Currently the Bank is unable to perform its obligations to European creditors due to technical limitations; however, the Bank's assets in the European Union are sufficient to meet its obligations. The Bank fulfills its obligations in the Russian Federation. If necessary, the Bank relies on the support of current shareholders.

Subsidiary

As at 30 June 2023, the Bank is parent company of the Group, which owns JSC IIB Capital (the Bank's 100% subsidiary) established in 2012 to deal with issues related to IIB activities in Russia including provision of trustee services to the Bank.

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

Basis of measurement

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

Functional and presentation currency

The euro ("EUR") is the 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 euro (EUR), unless otherwise indicated.

3. Summary of accounting policies

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 separate financial statements for the year ended 31 December 2022.

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 on the basis of management experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

When measuring expected credit losses, the Bank considers reasonable and supportable information on current and expected future economic conditions. As such, the Bank regularly updates macroeconomic scenarios and models used to measure key components, which are considered when determining expected credit losses. The Bank revised its macroeconomic projections in the models of macroeconomic adjustments while estimating the expected credit losses. The Bank prepared forecasts for each macroeconomic region up to 2-years into the future considering two different scenarios. Expected credit losses were estimated considering the availability of state reserves to support economic measures, differentiated effect of changes on various industries and specifics of the bank's assets subject to provisioning in accordance with IFRS 9. The specified changes resulted in adjusted provisions.

(Thousands of euros)

4. Significant accounting judgments and estimates (continued)**Assumptions and estimation uncertainty (continued)**

The measurement of expected credit loss allowance for financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income (FVOCI) is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Several significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- ▶ Determining criteria for significant increase in credit risk;
- ▶ Choosing appropriate models and assumptions for the measurement of ECL;
- ▶ Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL;
- ▶ Establishing groups of similar financial assets for the purposes of measuring ECL.

The Bank makes estimates and judgments, which are constantly analyzed based on statistical data, actual and forecast information, as well as management experience, including expectations regarding future events that are reasonable in current circumstances.

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

- ▶ Note 7 – Derivative financial instruments;
- ▶ Note 8 – Securities at fair value through other comprehensive income;
- ▶ Note 10 – Loans to banks;
- ▶ Note 11 – Loans to customers;
- ▶ Note 19 – Commitments and contingencies.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	<i>30 June 2023 (unaudited)</i>	<i>31 December 2022</i>
Cash on hand	919	458
Nostro accounts with banks and other financial institutions		
Credit rating from A- to A+	–	103,229
Credit rating from BBB- to BBB+	–	13,781
Credit rating from BB- to BB+	986	2,096
Credit rating from CC	8,311	30,520
Without credit ratings	20,064	–
Total nostro accounts with banks and other financial institutions	29,361	149,626
Short-term deposits with banks		
Credit rating from A- to A+	–	7,045
Credit rating from BBB- to BBB+	–	6,361
Credit rating from CC	270	207
Without credit ratings	10,648	–
Total short-term deposits with banks	10,918	13,613
Less: allowance for impairment cash and cash equivalents	(18)	(9)
Cash and cash equivalents	41,180	163,688

Nostro accounts without international credit ratings is cash on account in bank in Russian Federation.

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

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

An analysis of changes in the ECL allowances during the six months ended 30 June 2023 and 30 June 2022 are as follows:

Allowance for ECL at 1 January 2023	9
New purchased or originated assets	202
Assets derecognized or redeemed	(189)
Foreign exchange differences	(4)
At 30 June 2023 (unaudited)	18
Allowance for ECL at 1 January 2022	2
New purchased or originated assets	40
Assets derecognized or redeemed	(8)
Changes to inputs used for ECL calculations	56
Foreign exchange differences	5
At 30 June 2022 (unaudited)	95

6. Deposits with banks and other financial institutions

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

	30 June 2023 (unaudited)	31 December 2022
Restricted cash		
Credit rating from A- to A+	3,443	–
Credit rating from BBB- to BBB+	24,088	–
Credit rating CC	91,349	72,098
Total restricted cash	118,880	72,098
Term deposits up to 1 year		
Credit rating BBB+	–	610
Total term deposits up to 1 year	–	610
Term deposits over 1 year		
Credit rating from AA- to AA+	2,240	7,010
Credit rating from A- to A+	–	13,530
Credit rating from BBB- to BBB+	–	21,116
Credit rating from BB- to BB+	12,697	32,756
Credit rating from B- to B+	8,572	–
Credit rating CC	21,292	766
Without credit ratings	42,811	–
Total term deposits over 1 year	87,612	75,178
Less: allowance for impairment deposits with banks and other financial institutions	(13,798)	(42)
Deposits with banks and other financial institutions	192,694	147,844

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*(Thousands of euros)***6. Deposits with banks and other financial institutions (continued)**

Restricted cash is cash held on accounts in the Bank's depository partner and restricted for use by Euroclear (the payment agent OJSK Rosbank) and other companies. As of 30 June 2023 the Bank created provision in amount of EUR 13,500 thousand (31 December 2022: EUR 18 thousand).

Movements in the ECL related to deposits with banks and other financial institutions for the six months ended 30 June 2023 and the six months ended 30 June 2022 are as follows:

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Total</i>
Allowance for ECL at 1 January 2023	42	–	42
New purchased or originated assets	7,148	–	7,148
Assets derecognized or redeemed	(1,374)	–	(1,374)
Transfers to Stage 2	(13,506)	13,506	–
Changes to inputs used for ECL calculations	7,929	–	7,929
Foreign exchange differences	53	–	53
At 30 June 2023 (unaudited)	292	13,506	13,798

	<i>Stage 1</i>	<i>Total</i>
Allowance for ECL at 1 January 2022	–	–
New purchased or originated assets	84	84
Assets derecognized or redeemed	(12)	(12)
Changes to inputs used for ECL calculations	31	31
Foreign exchange differences	7	7
At 30 June 2022 (unaudited)	110	110

As at 30 June 2023, in addition to term deposits above EUR 34,967 thousand (31 December 2022: EUR 34,967 thousand) were due to the Bank from the Central Bank of Cuba. This amount was fully provisioned (31 December 2022: EUR 34,967 thousand).

Concentration of deposits with banks and other financial institutions

As at 30 June 2023, besides deposits with the Central Bank of Cuba, the Bank had deposits of three counterparties (31 December 2022: three counterparties) to each of them accounting for over 10% of the Bank's total deposits with banks and other financial institutions and amounting to EUR 76,799 thousand in total (31 December 2022: EUR 67,401 thousand).

7. Derivative financial instruments

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

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(Thousands of euros)

7. Derivative financial instruments (continued)

The table below shows the fair value of derivative financial instruments as at 30 June 2023 and 31 December 2022 and notional amounts of term contracts for the purchase and sale of foreign currency specifying contractual exchange rates.

30 June 2023 (unaudited)						
		Nominal amount		Weighted average exchange rate	Fair value	
		Purchase	Sale		Assets	Liabilities
Derivative financial assets and liabilities at fair value through profit or loss						
Swaps	USD 10,000 thousand	EUR 8,440 thousand	1.18	882	–	
	EUR 48,321 thousand	USD 57,800 thousand	1.20	–	4,616	
	EUR 11,074 thousand	RUB 1,000,000 thousand	90.34	1,185	–	
	RUB 3,600,000 thousand	RUB 3,600,000 thousand	1.00	546	–	
Total derivative financial assets and liabilities at fair value through profit or loss				2,613	4,616	
Derivative financial assets and liabilities designated as hedging instruments						
Swaps	RON 255,000 thousand	EUR 52,345 thousand	4.87	140	–	
Total derivative financial assets and liabilities designated as hedging instruments				140	–	
Derivative financial instruments				2,753	4,616	
31 December 2022						
		Nominal amount		Weighted average exchange rate	Fair value	
		Purchase	Sale		Assets	Liabilities
Derivative financial assets and liabilities at fair value through profit or loss						
Swaps	EUR 45,624 thousand	HUF 16,414,000 thousand	359.77	7,228	–	
	USD 10,000 thousand	EUR 8,440 thousand	1.18	1,191	–	
	EUR 155,442 thousand	USD 176,710 thousand	1.14	–	11,089	
	RUB 3,600,000 thousand	RUB 3,600,000 thousand	1.00	–	1,265	
	EUR 22,436 thousand	RUB 2,000,000 thousand	89.14	456	904	
	RON 105,000 thousand	EUR 21,236 thousand	4.94	–	401	
	CZK 900,000 thousand	EUR 36,856 thousand	24.42	–	16	
Total derivative financial assets and liabilities at fair value through profit or loss				8,875	13,675	
Derivative financial assets and liabilities designated as hedging instruments						
Swaps	HUF 23,500,000 thousand	EUR 64,898 thousand	362.11	–	10,388	
	RUB 4,000,000 thousand	EUR 49,751 thousand	80.40	–	8,802	
	CZK 1,872,000 thousand	EUR 71,843 thousand	26.06	5,166	–	
	RON 455,000 thousand	EUR 92,753 thousand	4.91	–	1,230	
Total derivative financial assets and liabilities designated as hedging instruments				5,166	20,420	
Derivative financial instruments				14,041	34,095	

As at 30 June 2023 and 31 December 2022, the Bank has positions in the following types of derivatives:

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(Thousands of euros)

7. Derivative financial instruments (continued)

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

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

Cash flow hedge: The Bank's strategy is to apply cash flow hedge accounting to keep its foreign currency revaluation fluctuations within its established limits. Applying cash flow hedge accounting enables the Bank to reduce the cash flow fluctuations arising from foreign exchange risk on an instrument or group of instruments.

From an accounting point of view, a cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss.

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognized directly in OCI within equity (Cash flow hedge reserve). The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in Net gains/(losses) from operation with foreign currencies and derivatives in the separate income statement.

When the hedged cash flow affects the separate income statement, the effective portion of the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the separate income statement.

When a hedging instrument expires, is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognized in OCI at that time remains in OCI and is recognized when the hedged forecast transaction is ultimately recognized in the separate income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately transferred to the separate income statement.

Micro-cash flow hedges

Micro-cash flow hedge relationships relate to distinctly identifiable assets or liabilities, hedged by one, or a few, hedging instruments.

The Bank's micro-cash flow hedges consist principally of cross-currency swaps that are used to protect against exposures to variability in future interest and principal cash flows on its issued bonds due to changes in forward foreign exchange rate risk. The hedging ratio is established by matching the notional of the derivatives against the principal of the hedged issued foreign currency debt.

The Bank considers the hedge of RON-denominated fixedbonds as a hedge of forward foreign exchange rate risk and follows a micro cash flow hedge with the currency risk element further described in Note 24.

The corresponding line item in the separate statement of financial position, where the hedged item is recorded, is Debt securities issued.

To test the hedge effectiveness, the Bank compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risk (e.g., changes in the forward exchange rates or interest rate risk) as represented by a hypothetical derivative. The hypothetical derivative method involves establishing a notional derivative that would be the ideal hedging instrument for the hedged exposure.

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*(Thousands of euros)***7. Derivative financial instruments (continued)****Micro-cash flow hedges (continued)**

Hedge ineffectiveness can arise from:

- ▶ Differences in timing of cash flows of hedged items and hedging instruments;
- ▶ Derivatives used as hedging instruments having a non-nil fair value at the time of designation; and
- ▶ The effect of changes in counterparties' credit risk on the fair values of hedging instruments or hedged items.

Considering the structure of hedge used by the Bank, the main source of ineffectiveness from the described above are differences in timing of cash flows.

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

The Bank applies hedge accounting for the forward foreign exchange risk of the bond issue in Romanian lei (RON) placed on 7 October 2020 (Note 16).

In March 2022 net present values of derivatives hugely declined due to sharp drop of RUB/EUR rate. This situation lead to the necessity to provide additional collateral. In order to keep acceptable level of liquidity the Bank accepted initiative of two counterparties to discontinue derivative deals. In April 2023, the Bank accepted the initiative of five more counterparties.

During six months 2023, hedge accounting of the following bond issues was early discontinued:

- ▶ In Romanian lei (RON) placed 19 October 2021;
- ▶ In Hungarian forint (HUF) placed on 28 September 2020 and 18 March 2021;
- ▶ In Russian ruble (RUB) placed on 29 April 2020;
- ▶ In Czech korunas (CZK) placed on 19 May 2020 and 27 September 2021.

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

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(Thousands of euros)

7. Derivative financial instruments (continued)**Micro-cash flow hedges (continued)**

The below table sets out the outcome of the Bank's hedging strategy, in particular, changes in fair values of hedged items and hedging instruments and change in cash flow hedge reserve separately showing the effective and ineffective portions:

		30 June 2023 (unaudited)		
		Changes in fair value of hedging instruments used for ineffectiveness measurement		Hedge ineffectiveness identified recognized
Change in fair value of hypothetical derivative used for ineffectiveness measurement	Net interest income/(expense)	Change in fair value excluding net interest income/(expense)	Effective portion of change in fair value excluding net interest income/(expense)	in the income statement in Net losses from operations with foreign currencies and derivatives
Micro-cash flow hedges				
Fixed rate HUF bonds	4,623	282	5,213	5,213
Fixed rate RON bonds	893	1,267	1,114	998
Fixed rate RUB bonds	(5,694)	535	(4,872)	(4,872)
Fixed rate CZK bonds	1,893	241	1,865	1,721
Floating rate CZK bonds	821	391	773	773
	2,536	2,716	4,093	3,833
				260
		30 June 2022 (unaudited)		
		Changes in fair value of hedging instruments used for ineffectiveness measurement		Hedge ineffectiveness identified recognized
Change in fair value of hypothetical derivative used for ineffectiveness measurement	Net interest income/(expense)	Change in fair value excluding net interest income/(expense)	Effective portion of change in fair value excluding net interest income/(expense)	in the income statement in Net losses from operations with foreign currencies and derivatives
Micro-cash flow hedges				
Fixed rate HUF bonds	(5,525)	581	(5,826)	(5,826)
Fixed rate RON bonds	(2,748)	3,376	(2,889)	(2,837)
Fixed rate RUB bonds	(70,914)	2,783	(80,889)	(79,864)
Fixed rate CZK bonds	946	705	983	983
Floating rate CZK bonds	422	562	61	61
Floating rate RON bonds	(216)	284	(68)	(68)
	(78,035)	8,291	(88,628)	(87,551)
				(1,077)

(Thousands of euros)

7. Derivative financial instruments (continued)**Micro-cash flow hedges (continued)**

The breakdown of cash flow hedge reserve movements during the period as follows:

	30 June 2023 (unaudited)				
	Opening balance of cash flow hedge reserve as at 1 January 2023	Foreign currency revaluation of hedged item	Change in fair value of hedging instruments excluding net interest income/(expense)	Write-off of cash flow hedge reserve on discontinued hedge relationships	Closing balance of cash flow hedge reserve as at 30 June 2023
Fixed rate HUF bonds	(3,888)	(4,059)	5,213	898	(1,836)
Fixed rate RON bonds	(670)	13	998	(115)	226
Fixed rate RUB bonds	(22,891)	6,311	(4,872)	8,831	(12,621)
Fixed rate CZK bonds	(3,326)	(1,663)	1,721	1,168	(2,100)
Floating rate CZK bonds	(49)	(776)	773	52	–
Floating rate RON bonds	(58)	–	–	58	–
	(30,882)	(174)	3,833	10,892	(16,331)
	30 June 2022 (unaudited)				
	Opening balance of cash flow hedge reserve as at 1 January 2022	Foreign currency revaluation of hedged item	Change in fair value of hedging instruments excluding net interest income/(expense)	Write-off of cash flow hedge reserve on discontinued hedge relationships	Closing balance of cash flow hedge reserve as at 30 June 2022
Fixed rate HUF bonds	(5,571)	4,603	(5,826)	1,649	(5,145)
Fixed rate RON bonds	(3,244)	(269)	(2,837)	–	(6,350)
Fixed rate RUB bonds	(13,711)	27,101	(79,864)	7,780	(58,694)
Fixed rate CZK bonds	(7,014)	(306)	983	641	(5,696)
Floating rate CZK bonds	(66)	(123)	61	–	(128)
Floating rate RON bonds	(186)	(14)	(68)	76	(192)
	(29,792)	30,992	(87,551)	10,146	(76,205)

(Thousands of euros)

7. Derivative financial instruments (continued)**Micro-cash flow hedges (continued)**

As at 30 June 2023 change in fair value of hypothetical derivatives for the reporting period used for ineffectiveness measurement was EUR 2,536 thousand (30 June 2022: EUR (78,035) thousand), change in fair value of hedging instruments used for ineffectiveness measurement was EUR 3,833 thousand (30 June 2022: EUR (87,551) thousand) and was presented in OCI in “Net unrealized losses on cash flow hedges”. During six months 2023 change in fair value of hedged item of EUR (175) thousand (six months 2022: EUR 30,922 thousand) was reclassified from “Net unrealized losses on cash flow hedges” into “Net losses from operations with foreign currencies and derivatives”. Loss on write-off of cash flow hedge reserve on early discontinued hedging relationships of EUR (10,892) was presented in “Net losses from operations with foreign currencies and derivatives” (six months 2022: EUR (10,146) thousand).

The following table shows the maturity and interest rate risk profiles of the Bank’s hedging instruments used in its cash flow hedges. As the Bank applies one-to-one hedging ratios, the below table effectively shows the outcome of the cash flow hedges:

	30 June 2023		31 December 2022		
	(unaudited)		3 months to	1 to	
	3 months to	Total	1 year	5 years	Total
Micro-cash flow hedges					
Cross currency interest rate swaps					
Notional principal	—	—	41,592	23,307	64,899
Average interest rate	—	—	0.81%	0.07%	0.54%
Average HUF/EUR rate	—	—	360.65	364.70	362.10
Notional principal	52,345	52,345	92,753	—	92,753
Average interest rate	0.40%	0.40%	0.20%	—	0.20%
Average RON/EUR rate	4.87	4.87	4.91	—	4.91
Notional principal	—	—	—	49,751	49,751
Average interest rate	—	—	—	4.76%	4.76%
Average RUB/EUR rate	—	—	—	80.40	80.40
Notional principal	—	—	22,582	49,262	71,844
Average interest rate	—	—	3.72%	(0.03)%	1.15%
Average CZK/EUR rate	—	—	27.50	25.40	26.06

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(Thousands of euros)

8. Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income comprise:

	<i>30 June 2023 (unaudited)</i>	<i>31 December 2022</i>
<i>Owned by the Bank</i>		
Listed debt securities at fair value through other comprehensive income		
Government bonds of member countries		
<i>Credit rating from BBB- to BBB+</i>	–	3,504
Government bonds of non-member countries		
<i>Credit rating from AA- to AA+</i>	–	9,016
<i>Credit rating from A- to A+</i>	13,344	13,256
<i>Credit rating from BBB- to BBB+</i>	3,889	2,357
<i>Credit rating from BB- to BB+</i>	15,580	14,375
Government bonds	32,813	42,508
Corporate bonds		
<i>Credit rating AAA</i>	16,878	28,193
<i>Credit rating from AA- to AA+</i>	11,207	26,804
<i>Credit rating from A- to A+</i>	12,687	12,589
<i>Credit rating from BBB- to BBB+</i>	45,202	36,123
<i>Credit rating from BB- to BB+</i>	10,004	10,005
<i>Credit rating CCC-</i>	7,489	–
Corporate bonds	103,467	113,714
Total listed debt securities at fair value through other comprehensive income	136,280	156,222
Securities at fair value through other comprehensive income	136,280	156,222

Securities at fair value through other comprehensive in the amount EUR-equivalent 120,229 thousand (31 December 2022: the amount EUR-equivalent 153,865 thousand) are held on accounts in the Bank's depositary partner and restricted for use by Euroclear and other foreign depositaries. As of 30 June 2023 the Bank created provision in amount of EUR 12,334 thousand (31 December 2022: EUR 126 thousand).

In the six months of the 2023 in order to cover urgent liquidity needs, the Bank had to sell securities in the amount EUR-equivalent 24,133 thousand and incurred a loss of EUR (1,410) thousand (2022: the amount EUR-equivalent 61,110 thousand with a financial result of EUR (516) thousand).

Movements in the ECL related to securities at fair value through other comprehensive income for the six months ended 30 June 2023 and the six months ended 30 June 2022 are as follows:

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Total</i>
Allowance for ECL at 1 January 2023	131	–	131
New purchased or originated assets	142	–	142
Assets derecognized or redeemed	(1,243)	–	(1,243)
Transfers to Stage 2	(12,334)	12,334	–
Changes to inputs used for ECL calculations	13,535	–	13,535
Foreign exchange differences	19	–	19
At 30 June 2023 (unaudited)	250	12,334	12,584

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(Thousands of euros)

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

Changes to inputs used for ECL calculations for securities at fair value through other comprehensive income were caused by introduction of a new approach for blocked assets provisioning as a result of temporary restricted access to blocked funds in the EU. This expected loss was calculated as an alternative cost of funds till unblocking.

	<i>Stage 1</i>	<i>Total</i>
Allowance for ECL at 1 January 2022	123	123
New purchased or originated assets	20	20
Assets derecognized or redeemed	(70)	(70)
Changes to inputs used for ECL calculations	98	98
Foreign exchange differences	20	20
At 30 June 2022 (unaudited)	191	191

Government bonds comprise EUR- denominated securities issued and guaranteed by the Ministries of Finance of the countries. The bonds mature in 2026-2030 (31 December 2022: maturing in 2024-2030). The annual coupon rate for these bonds varies from 0.1% to 7.5% (31 December 2022: from 0.1% to 7.5%).

Corporate bonds comprise bonds issued by large companies and banks of the member countries of the Bank, as well as international companies and development banks with goals and missions similar to those of the Bank. The bonds mature in 2023-2028 (31 December 2022: maturing in 2023-2028). The annual coupon rate for these bonds varies from 0.3% to 9.1% (31 December 2022: from 0.3% to 6.5%).

9. Securities at amortized cost

Securities at amortized cost comprise:

	<i>30 June 2023 (unaudited)</i>	<i>31 December 2022</i>
Corporate bonds		
<i>Credit rating AAA</i>	15,346	23,322
<i>Credit rating AA</i>	–	19,098
<i>Credit rating C</i>	20,360	20,620
Corporate bonds	35,706	63,040
Less: allowance for impairment securities at amortized cost	(3,469)	(906)
Listed debt securities at amortized cost	32,237	62,134

Securities at amortized cost are held on accounts in the Bank's depository partner and restricted for use by Euroclear and other foreign depositories.

In the six months of the 2023 to support liquidity position the Bank disposed securities in the amount of EUR 23,310 thousand with the effect of EUR (3,284) thousand (2022: the amount of EUR 25,060 thousand with the effect of EUR (1,855) thousand).

Movements in the ECL related to securities at amortized cost for the six months ended 30 June 2023 and the six months ended 30 June 2022 are as follows:

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Total</i>
Allowance for ECL at 1 January 2023	906	–	906
Assets derecognized or redeemed	(198)	–	(198)
Transfers to Stage 2	(1,628)	1,628	–
Changes to inputs used for ECL calculations	2,746	–	2,746
Foreign exchange differences	15	–	15
At 30 June 2023 (unaudited)	1,841	1,628	3,469

(Thousands of euros)

9. Securities at amortized cost (continued)

	<i>Stage 1</i>	<i>Total</i>
Allowance for ECL at 1 January 2022	59	59
New purchased or originated assets	25	25
Assets derecognized or redeemed	(42)	(42)
Changes to inputs used for ECL calculations	1,069	1,069
Foreign exchange differences	1	1
At 30 June 2022 (unaudited)	1,112	1,112

Corporate bonds comprise investment grade bonds issued by large companies and banks of the member countries of the Bank, as well as international companies and development banks with goals and missions similar to those of the Bank. The bonds mature in 2025-2027 (31 December 2022: 2025-2029). The coupon rate for these bonds varies from 2.1% to 2.2% (31 December 2022: 0.6% to 2.2%).

10. Loans to banks

In six months 2023 and year 2022, the Bank provided long-term loans to borrowers operating in the following countries (all relates to 1st Stage):

	<i>30 June 2023 (unaudited)</i>	<i>31 December 2022</i>
Long-term loans to banks		
Republic of Cuba	50,001	50,149
Mongolia	30,323	34,685
Socialist Republic of Vietnam	18,998	21,652
Long-term loans to banks	99,322	106,486
Less: allowance for impairment of loans to banks	(1,488)	(2,481)
Loans to banks	97,834	104,005

Movements in the ECL related to long-term loans to banks for the six months ended 30 June 2023 and the six months ended 30 June 2022 are as follows:

<i>Long-term loans to banks</i>	<i>Stage 1</i>	<i>Total</i>
Allowance for ECL at 1 January 2023	2,481	2,481
New purchased or originated assets	191	191
Assets derecognized or redeemed (excluding write-offs)	(193)	(193)
Changes to inputs used for ECL calculations	(966)	(966)
Foreign exchange differences	(25)	(25)
At 30 June 2023 (unaudited)	1,488	1,488

<i>Long-term loans to banks</i>	<i>Stage 1</i>	<i>Total</i>
Allowance for ECL at 1 January 2022	3,118	3,118
New purchased or originated assets	62	62
Assets derecognized or redeemed (excluding write-offs)	(856)	(856)
Changes to inputs used for ECL calculations	(1,208)	(1,208)
Foreign exchange differences	121	121
At 30 June 2022 (unaudited)	1,237	1,237

As at 30 June 2023, there were no overdue loans to banks (31 December 2022: no overdue).

Modified and restructured loans to banks

For the six months 2023, there were no modifications of a loan agreement to bank (In 2022: no modifications).

(Thousands of euros)

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

A reconciliation of the allowance for ECL related to the impairment of loans to banks by country for the six months ended 30 June 2023 and the six months ended 30 June 2022 are as follows:

	<i>Mongolia</i>	<i>Socialist Republic of Vietnam</i>	<i>Republic of Cuba</i>	<i>Total</i>
Allowance for ECL at 1 January 2023	973	159	1,349	2,481
Net reversal of impairment allowance for ECL during the period	(843)	(121)	(4)	(968)
Foreign exchange differences	(22)	(3)	–	(25)
At 30 June 2023 (unaudited)	108	35	1,345	1,488

	<i>Mongolia</i>	<i>Socialist Republic of Vietnam</i>	<i>Republic of Cuba</i>	<i>Total</i>
Allowance for ECL at 1 January 2022	1,022	537	1,586	3,145
Net reversal of impairment allowance for ECL during the year	(519)	(294)	(1,215)	(2,028)
Foreign exchange differences	82	40	–	122
At 30 June 2022 (unaudited)	585	283	371	1,239

Analysis of collateral for loans to banks

The following table provides an analysis of the portfolio of trade financing loans and long-term loans to banks by type of collateral as at 30 June 2023 and 31 December 2022.

	<i>30 June 2023 (unaudited)</i>		<i>31 December 2022</i>	
	<i>Loans to banks, net of allowance for impairment</i>	<i>Share in the total loans, %</i>	<i>Loans to banks, net of allowance for impairment</i>	<i>Share in the total loans, %</i>
State guarantees	48,656	49.7	48,800	46.9
Uncollateralized part of the loans	49,178	50.3	55,205	53.1
Loans to banks	97,834	100.0	104,005	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 2023, long-term loans and trade financing loans to three banks (31 December 2022: five banks) with a total amount of loans to each of them exceeding 10% of total loans to banks were recorded on the Bank's separate statement of financial position. As at 30 June 2023, the total amount of such major loans was EUR 75,057 thousand (31 December 2022: EUR 95,696 thousand) and allowances of EUR 1,416 thousand (31 December 2022: EUR 2,212 thousand) were made for them.

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(Thousands of euros)

11. Loans to customers

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

	30 June 2023 (unaudited)	31 December 2022
<i>Owned by the Bank</i>		
Loans to customers at amortized cost		
Russian Federation	85,957	218,512
Romania	80,226	82,326
Hungary	52,608	49,584
Republic of Bulgaria	51,871	58,533
Mongolia	29,718	29,070
Republic of Ecuador	25,758	25,610
Republic of Italy	15,310	15,174
Czech Republic	15,247	15,093
Cyprus	12,534	12,899
Kingdom of the Netherlands	6,763	6,875
Socialist Republic of Vietnam	3,077	4,121
Slovak Republic	296	295
Total loans to customers at amortized cost	379,365	518,092
Loans to customers at fair value through other comprehensive income		
Republic of Bulgaria	21,158	19,513
Romania	19,369	19,307
Republic of Ireland	12,702	13,255
Total loans to customers at fair value through other comprehensive income	53,229	52,075
Less: allowance for impairment of loans to customers	(14,238)	(26,261)
Loans to customers	418,356	543,906

All the borrowers domiciled in the European countries have not technical ability to fulfil obligations towards the Bank. The Bank issues waivers to customers with prolongation of terms of payments.

In six months 2023 in order to cover urgent liquidity needs, the Bank had to sell loans to customers at amortized cost in the amount of EUR-equivalent 93,117 thousand with a total financial result of EUR (3,342) thousand (2022: loans to customers at amortized cost in the amount of EUR-equivalent 384,391 thousand with a loss of EUR (27,739) thousand and loans to customers at fair value through other comprehensive income in the amount of EUR-equivalent 76,066 thousand with a loss of EUR (9,481) thousand).

Movements in the ECL related to loans to customers at amortized cost for the six months ended 30 June 2023 and the six months ended 30 June 2022 are as follows:

<i>Loans to customers at amortized cost</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Allowance for ECL at 1 January 2023	7,519	295	18,447	26,261
New purchased or originated assets	691	9	564	1,264
Assets derecognized or redeemed (excluding write-offs)	(3,735)	–	–	(3,735)
Transfers to Stage 2	(9,272)	9,272	–	–
Effect on ECL at the year-end due to transfers between stages during the year	–	381	–	381
Changes to contractual cash flows due to modifications not resulting in derecognition	24	–	–	24
Changes to inputs used for ECL calculations	9,284	–	–	9,284
Sale of loan	–	–	(18,902)	(18,902)
Foreign exchange differences	(230)	–	(109)	(339)
At 30 June 2023 (unaudited)	4,281	9,957	–	14,238

(Thousands of euros)

11. Loans to customers (continued)

<i>Loans to customers at amortized cost</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Allowance for ECL at 1 January 2022	3,023	1,142	5,267	9,432
New purchased or originated assets	6,148	605	124	6,877
Assets derecognized or redeemed (excluding write-offs)	(3,767)	(21)	(20)	(3,808)
Changes to contractual cash flows due to modifications not resulting in derecognition	141	—	—	141
Changes to inputs used for ECL calculations	4,564	7,250	15,224	27,038
Foreign exchange differences	1,700	5,588	1,485	8,773
At 30 June 2022 (unaudited)	11,809	14,564	22,080	48,453

Movements in the ECL related to loans to customers at fair value through other comprehensive income for the six months ended 30 June 2023 and the six months ended 30 June 2022 are as follows:

<i>Loans to customers at fair value through other comprehensive income</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Total</i>
Allowance for ECL at 1 January 2023	490	—	490
Assets derecognized or redeemed (excluding write-offs)	(52)	—	(52)
Transfers to Stage 2	(5,013)	5,013	—
Changes to inputs used for ECL calculations	4,575	—	4,575
At 30 June 2023 (unaudited)	—	5,013	5,013

<i>Loans to customers at fair value through other comprehensive income</i>	<i>Stage 1</i>	<i>Total</i>
Allowance for ECL at 1 January 2022	397	397
New purchased or originated assets	8	8
Assets derecognized or redeemed (excluding write-offs)	(187)	(187)
Changes to inputs used for ECL calculations	275	275
Foreign exchange differences	15	15
At 30 June 2022 (unaudited)	508	508

As at 30 June 2023, there were no overdue loans to customers (31 December 2022: no overdue).

Modified and restructured loans to customers

For the six months 2023, the Bank has modified the terms and conditions of several loans to customers however effect from these modifications was insignificant (2022: several modifications have been performed however effect from these modifications was insignificant).

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(Thousands of euros)

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

A reconciliation of the allowance for ECL related to the impairment of loans to customers by country for the six months ended 30 June 2023 and for the six months ended 30 June 2022 are as follows:

	<i>Russian Federation</i>	<i>Republic of Bulgaria</i>	<i>Hungary</i>	<i>Mongolia</i>	<i>Socialist Republic of Vietnam</i>	<i>Other</i>	<i>Total</i>
Allowance for ECL at 1 January 2023	23,846	47	270	896	36	1,166	26,261
Net (reversal)/charge of impairment allowance for ECL during the year	(1,488)	(22)	6,694	(28)	(34)	2,096	7,218
Sale of loan	(18,902)	—	—	—	—	—	(18,902)
Foreign exchange differences	(405)	—	66	2	—	(2)	(339)
At 30 June 2023 (unaudited)	3,051	25	7,030	870	2	3,260	14,238

	<i>Russian Federation</i>	<i>Republic of Bulgaria</i>	<i>Romania</i>	<i>Slovak Republic</i>	<i>Hungary</i>	<i>Czech Republic</i>	<i>Mongolia</i>	<i>Socialist Republic of Vietnam</i>	<i>Other</i>	<i>Total</i>
Allowance for ECL at 1 January 2022	1,394	78	196	294	96	13	999	454	5,908	9,432
Net (reversal)/charge of impairment allowance for ECL during the year	15,069	(16)	123	—	165	14	(92)	(379)	15,364	30,248
Foreign exchange differences	7,263	—	—	—	(4)	—	3	24	1,487	8,773
At 30 June 2022 (unaudited)	23,726	62	319	294	257	27	910	99	22,759	48,453

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(Thousands of euros)

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

The following table provides an analysis of the customer loan portfolio, net of allowance for impairment, by types of collateral as at 30 June 2023 and 31 December 2022:

	30 June 2023 (unaudited)		31 December 2022	
	Loans to customers less impairment allowance	Share in the total loans, %	Loans to customers less impairment allowance	Share in the total loans, %
Pledge of real property (mortgage) and title	78,401	18.7	96,863	17.8
Pledge of shares	37,675	9.0	33,168	6.1
State guarantees	25,259	6.0	25,601	4.7
Pledge of equipment and goods in turnover	20,767	5.0	25,157	4.6
Pledge of rights of claim	14,686	3.5	15,456	2.8
Pledge of vehicles	2,591	0.6	4,898	0.9
Corporate guarantees	—	—	22,294	4.1
Uncollateralized part of the loans	238,977	57.2	320,469	59.0
Loans to customers	418,356	100.0	543,906	100.0

The collateral of loans to customers by country for the six months ended 30 June 2023 is as follows:

	30 June 2023 (unaudited)					
	Russian Federation	Republic of Bulgaria	Hungary	Mongolia	Other	Total
Pledge of real property (mortgage) and title	35,066	—	8,704	6,431	28,200	78,401
Pledge of shares	—	10,244	—	370	27,061	37,675
State guarantees	—	—	—	—	25,259	25,259
Pledge of equipment and goods in turnover	—	869	5,103	12,772	2,023	20,767
Pledge of rights of claim	1,060	13,146	—	—	480	14,686
Pledge of vehicles	2,591	—	—	—	—	2,591
Loans to customers	38,717	24,259	13,807	19,573	83,023	179,379

The amounts shown in the table above represent the carrying amount of the customer loan portfolio and do not necessarily represent the fair value of the collateral. As at 30 June 2023, the Bank has not recognized a loss allowance of loans to two borrowers (31 December 2022: four borrowers because of the collateral. These loans comprised EUR 23,851 thousand (31 December 2022: EUR 27,112 thousand) in total.

Concentration of loans to customers

As at 30 June 2023, the Bank has one loan to customer (31 December 2022: one loans with a total amount exceeding 10% of total loans to customers were recorded on the Bank's separate statement of financial position. The total amount of such major loan was EUR 67,537 thousand (31 December 2022: EUR 79,478 thousand and allowances of EUR 1,838 thousand (31 December 2022: EUR 2,063 thousand were made for them.

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*(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 2023 (unaudited)	31 December 2022
Production and transmission of electricity and gas	87,515	144,218
Leasing	84,800	138,627
Financial services	45,547	70,114
Food and beverage	38,427	39,514
Real estate	33,414	30,478
Retail	27,975	27,354
Textile manufacture	22,579	22,036
Production of vehicles	15,310	15,174
Manufacturing of electrical equipment	15,247	15,093
Agriculture	13,606	13,968
Communications	12,537	12,374
Software engineering	12,534	12,899
Metallurgic industry	11,750	16,244
Postal activities	4,858	4,844
Manufacturing of paper and paper products	3,389	3,083
Water collection, treatment and supply	3,106	4,147
	432,594	570,167
Less: allowance for impairment of loans to customers	(14,238)	(26,261)
Loans to customers	418,356	543,906

The borrowers operating in the financial services industry are represented by special purposes entities financing and developing projects on the territories of other countries.

12. Other assets and liabilities

Other assets comprise:

	30 June 2023 (unaudited)	31 December 2022
Financial assets		
Settlements on bank transactions	1,312	328
Accounts receivable on business operations	205	306
Guarantee payments	—	4
Other financial assets	2	49
	1,519	687
Less allowance for impairment of financial assets	(157)	(190)
Total financial assets	1,362	497
Non-financial assets		
Total non-financial assets	693	1,116
Other assets	2,055	1,613

(Thousands of euros)

12. Other assets and liabilities (continued)

An analysis of changes in the ECL allowances during the six months ended 30 June 2023 the six months ended 30 June 2022 are as follows:

<i>Financial assets</i>	<i>Total</i>
Allowance for ECL at 1 January 2023	190
New purchased or originated assets	16
Assets derecognized or redeemed (excluding write-offs)	(43)
Foreign exchange differences	(6)
At 30 June 2023 (unaudited)	157

<i>Financial assets</i>	<i>Total</i>
Allowance for ECL at 1 January 2022	154
New purchased or originated assets	14
Assets derecognized or redeemed (excluding write-offs)	(8)
Foreign exchange differences	16
At 30 June 2022 (unaudited)	176

Other liabilities comprise:

	<i>30 June 2023 (unaudited)</i>	<i>31 December 2022</i>
Financial liabilities		
Other accounts payable on business operations	1,077	1,290
Other accounts payable on bank transactions	868	76
Total financial liabilities	1,945	1,366
Non-financial liabilities		
Allowance for ECL on credit-related commitments	289	328
Settlements with employees	267	1,144
Other non-financial liabilities	4	28
Total non-financial liabilities	560	1,500
Other liabilities	2,505	2,866

13. Allowances for expected credit losses

The table below shows (decrease)/increase of allowances for ECL on financial instruments recorded in profit or loss for the six months ended 30 June 2023 and six months ended 30 June 2022:

	<i>Note</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Cash and cash equivalents	5	13	—	—	13
Deposits with banks and other financial institutions	6	13,703	—	—	13,703
Securities at fair value through other comprehensive income	8	12,434	—	—	12,434
Securities at amortized cost	9	2,548	—	—	2,548
Loans to banks	10	(968)	—	—	(968)
Loans to customers	11	10,787	390	564	11,741
Financial assets	12	(2)	—	(25)	(27)
Non-financial liabilities (allowance for ECL on credit-related commitments)	12, 19	(39)	—	—	(39)
Total allowance for ECL for the six months ended 30 June 2023 year (unaudited)		38,476	390	539	39,405

(Thousands of euros)

13. Allowances for expected credit losses (continued)

	<i>Note</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Cash and cash equivalents	5	88	–	–	88
Deposits with banks and other financial institutions	6	103	–	–	103
Securities at fair value through other comprehensive income	8	48	–	–	48
Securities at amortized cost	9	1,052	–	–	1,052
Loans to banks	10	(2,028)	–	–	(2,028)
Loans to customers	11	7,182	7,834	15,328	30,344
Financial assets	12	4	2	–	6
Non-financial liabilities (allowance for ECL on credit-related commitments)	12, 19	(471)	–	–	(471)
Total allowance for ECL for the six months ended 30 June 2022 (unaudited)		5,978	7,836	15,328	29,142

Movements in allowances for ECL on financial instruments for the six months ended 30 June 2023 and six months ended 30 June 2022 were as follows:

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Allowance for ECL at 1 January 2023	11,910	295	53,600	65,805
New purchased or originated assets	8,431	9	564	9,004
Assets derecognized or redeemed (excluding write-offs)	(7,082)	–	(25)	(7,107)
Transfers to Stage 2	(41,753)	41,753	–	–
Effect on ECL at the year-end due to transfers between stages during the year	–	381	–	381
Changes to contractual cash flows due to modifications not resulting in derecognition	24	–	–	24
Changes to inputs used for ECL calculations	37,103	–	–	37,103
Sale of loan	–	–	(18,902)	(18,902)
Translation differences	(172)	–	(115)	(287)
At 30 June 2023 (unaudited)	8,461	42,438	35,122	86,021
Allowance for ECL at 1 January 2022	7,658	1,142	40,384	49,184
New purchased or originated assets	6,873	607	124	7,604
Assets derecognized or redeemed (excluding write-offs)	(6,037)	(21)	(20)	(6,078)
Changes to contractual cash flows due to modifications not resulting in derecognition	141	–	–	141
Changes to inputs used for ECL calculations	5,001	7,250	15,224	27,475
Translation differences	1,943	5,589	1,499	9,031
At 30 June 2022 (unaudited)	15,579	14,567	57,211	87,357

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

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

	30 June 2023 (unaudited)	31 December 2022
Due to banks less than 1 year		
Term deposits of banks and other financial institutions	134	–
Due to banks over 1 year		
Term deposits of banks and other financial institutions	50	1,620
Due to banks and other financial institutions	184	1,620

Concentration of deposits from banks and other financial institutions

As at 30 June 2023, the Bank has two counterparties (31 December 2022: single counterparty) each accounting for over 10% of the Bank's total deposits from banks and other financial institutions in the total amount of EUR 184 thousand (31 December 2022: EUR 1,620 thousand).

15. Long-term loans of banks

Long-term loans of banks comprise:

	30 June 2023 (unaudited)	31 December 2022
Loans of banks	42,690	45,611
Long-term loans of banks	42,690	45,611

On 19 March 2018, the Bank received the first tranche from the BRICS New Development Bank in the amount of USD 12.5 million (EUR 10,273 thousand) under the loan agreement of USD 50.0 million. On 17 July 2018, the Bank received the second tranche in the amount of USD 12.5 million (EUR 10,674 thousand). On 6 August 2019, the Bank received the third tranche in the amount of USD 12.5 million (EUR 11,147 thousand). On 23 March 2020, the Bank received the fourth and final tranche in the amount of USD 12.5 million (EUR 11,681 thousand). On 31 March 2022 The Bank repaid the first part on 31 March 2022 in the amount of USD 3.1 million (EUR 2,845 thousand), the second part on 30 September 2022 in the amount of USD 3.1 million (EUR 3,215 thousand) and the third part on 31 March 2023 in the amount of USD 3.1 million (EUR 2,866 thousand).

On 2 December 2021, the Bank received the first tranche from the KDB Bank in the amount of HUF 808.0 million (EUR 2,227 thousand) under the loan agreement of HUF 5.8 billion. On 17 January 2022, the Bank received the second tranche in the amount of HUF 1,100.0 million (EUR 3,085 thousand).

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

Debt securities issued comprise:

	<i>Interest rate, % p.a.</i>	<i>Maturity</i>	<i>30 June 2023 (unaudited)</i>	<i>31 December 2022</i>
CZK-denominated bonds	1.50-4.00	2023-2027	225,386	220,331
RUB-denominated bonds	0.01-7.75	2024-2027	128,808	328,485
RON-denominated bonds	3.39-4.95	2023-2025	133,091	170,447
EUR-denominated bonds	0.00-0.95	2023-2041	104,696	104,821
HUF-denominated bonds	1.90-2.25	2023-2024	64,068	59,182
Debt securities issued			656,049	883,266

On 26 May 2023, the Bank was unable to repay bonds in amount CZK 621,000 thousand (EUR 26,227 thousand) as it was deprived of the technical ability to work and fulfill its obligations in Europe due to US sanctions and the designation of the Bank to the US OFAC SDN list. On 30 June 2023 the Bank was unable to repay bonds and coupon in amount EUR 28,598 thousand.

On the 16 May 2023, the Bank repaid bonds in amount RUB 7,000 million (EUR 83,391 thousand).

On 5 April 2023, the Bank issued bonds in amount RUB 3,500 million (EUR 40,277 thousand) with the maturity of 3 years, coupon of 9.45% p.a. On the 3 May 2023, the Bank repaid bonds in amount RUB 3,500 million (EUR 39,513 thousand).

On 10 March 2023, the Bank repaid bonds in amount RUB 6,698 million (EUR 83,429 thousand).

On 24 March 2023, the Bank repaid bonds in amount RON 190,531 thousand (EUR 38,485 thousand).

On 2 November 2022, the Bank repaid RON denominated bonds in the amount of RON 500 million (EUR 102,103 thousand).

On 18 October 2022, the Bank repaid HUF denominated bonds in the amount of HUF 10,835 million (EUR 25,934 thousand).

On 12 May 2022, under put option the Bank bought back HUF denominated bonds in the amount of HUF 11,082 million (EUR 29,194 thousand).

On 22 March 2022, the Bank repaid bonds in amount HUF 24,700 million (EUR 66,130 thousand).

On 27 January 2022, the Bank issued CZK 900 million (EUR 36,581 thousand) under MTN Programme with the maturity of 5 years, coupon of 4% p.a. Bonds were listed on the Euronext Dublin.

On 27 January 2022, the Bank issued RON 105 million (EUR 21,170 thousand) under MTN Programme with 3-year maturity, coupon of 4.95%. Bonds were listed on the Euronext Dublin.

At the issue dates of the non-EUR-denominated bonds, the Bank entered into cross-currency interest rate swaps for the purpose of managing currency risks (Note 7) and exchanging interest expense from debt securities issued, denominated in RON to the currency required by the Bank (EUR) to finance credit projects in the required currency. The Bank hedge accounting for the forward foreign exchange risk of the bond issue in Romanian lei (RON) placed on 7 October 2020.

The cash-flows of the fixed rate securities issued by the Bank are exposed to the change in the EUR/RON spot and forward foreign exchange rates. The forward foreign exchange risk related to these securities are hedged with cross-currency interest rate swap ("CCIRS") transactions, resulting in a decrease in forward foreign exchange exposure of issued securities. The effects of using cross-currency interest rate swaps are disclosed in Notes 21 and 22.

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

*(Thousands of euros)***17. Subordinated perpetual deposit**

Subordinated perpetual deposit consisted of the following:

	30 June 2023 (unaudited)	31 December 2022
Subordinated perpetual deposit	69,003	–
Subordinated perpetual deposit	69,003	–

On 30 January 2023, the Board of Governors approved restructuring of the Bank's paid-in capital. Following this decision, the Bank converted part of the Russian Federation's share into a subordinated perpetual deposit of EUR 69,000 thousand with an interest rate of 0.01 p.a.

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

On 18 August 2018, new statutory documents of the International Investment Bank entered into force. Pursuant to the amended statutory documents, the Bank's authorized capital amounts to EUR 2,000,000 thousand (31 December 2022: EUR 2,000,000 thousand), which represents the Bank's equity stated in the Agreement on the Establishment of the International Investment Bank. The Bank's member countries make contributions to the Bank's equity pursuant to their shares stipulated in the Agreement.

The Czech Republic and the Slovak Republic officially withdrew from the Bank on 27 January 2023 and 29 January 2023, respectively, the Romania withdrew on 9 June 2023. In January 2023 the Board of Governors approved governing principles for settlement of mutual obligations between the Bank and the withdrawing members. Each settlement with each of the withdrawing members shall be conducted in form of an international treaty signed between the Bank and each of the withdrawing members. The Bank continues to account contributions of withdrawn members in capital, since at the reporting date no agreements have been signed and the amount of liabilities has not been determined.

As at 30 June 2023, the unpaid portion of the Bank's authorized capital consists of the callable capital (contributions that have not been made yet by the Bank's member countries) in the amount of EUR 685,972 thousand (31 December 2022: EUR 697,376 thousand) and the amount of unallocated equity contributions (quotas that are available to new or existing Member countries) totaling EUR 1,048,252 thousand (31 December 2022: EUR 875,500 thousand).

The paid-in capital of the International Investment Bank totaled EUR 265,776 thousand (31 December 2022: EUR 427,124 thousand).

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*(Thousands of euros)***18. Equity (continued)****Revaluation reserve for securities at fair value through other comprehensive income, cash flow hedge reserve and revaluation reserve for property and equipment**

Changes in the revaluation reserve for securities at FVOCI and cash flow hedge reserve, and revaluation reserve for property and equipment were as follows:

	<i>Revaluation reserve for securities</i>	<i>Cash flow hedge reserve</i>	<i>Revaluation reserve for property and equipment</i>
At 1 January 2022	(58)	(29,792)	8,691
Net change in the fair value of securities at FVOCI	(39,055)	—	—
Change in the allowance for ECL on securities at FVOCI	179	—	—
Reclassification of accumulated gains from disposal of debt securities at fair value through other comprehensive income to the separate income statement	7,610	—	—
Effective portion of changes in fair value arising from CCIRS	—	(87,551)	—
Net amount reclassified to net losses from operations with foreign currencies and derivatives	—	41,138	—
At 30 June 2022 (unaudited)	(31,324)	(76,205)	8,691
At 1 January 2023	(31,956)	(30,882)	7,898
Net change in the fair value of securities at FVOCI	5,108	—	—
Change in the allowance for ECL on securities at FVOCI	16,976	—	—
Reclassification of accumulated losses from disposal of debt securities at fair value through other comprehensive income to the separate income statement	1,588	—	—
Effective portion of changes in fair value arising from CCIRS	—	3,833	—
Net amount reclassified to net losses from operations with foreign currencies and derivatives	—	10,718	—
At 30 June 2023 (unaudited)	(8,284)	(16,331)	7,898

Revaluation reserve for securities

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

Revaluation reserve for property and equipment

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

Cash flow hedge reserve

Cash flow hedge reserve is used to record the portion of the cumulative gain or loss on a hedging instrument that is determined to be an effective hedge. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in Net losses from operations with foreign currencies and derivatives in the Income statement.

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*(Thousands of euros)***19. Commitments and contingencies****Legal**

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

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

Insurance

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

Taxation

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

Credit-related commitments

At any time the Bank may have outstanding commitments to extend loans. These commitments take the form of approved loan agreements. As at 30 June 2023, credit-related commitments of the Bank comprised credit-related commitments such as undrawn loan facilities.

The primary purpose of credit-related commitments is to ensure that funds are available to customers as required. Guarantees issued, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Undrawn loan facilities represent unused portions of funds to be issued as loans.

Credit-related commitments are presented in the table below as at 30 June 2023 and 31 December 2022:

	30 June 2023 (unaudited)	31 December 2022
Undrawn loan facilities	22,440	36,002
Guarantees issued	1,960	8,875
	24,400	44,877
Less: allowance for impairment of credit-related commitments	(289)	(328)
Credit-related commitments	24,111	44,549

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(Thousands of euros)

19. Commitments and contingencies (continued)**Credit-related commitments (continued)**

Movements in the ECL related to undrawn loan facilities for the six months ended 30 June 2023 and six months ended 30 June 2022 are as follows:

<i>Undrawn loan facilities</i>	<i>Stage 1</i>	<i>Total</i>
Allowance for ECL at 1 January 2023	300	300
New purchased or originated credit-related commitments	29	29
Credit-related commitments derecognized or redeemed (excluding write-offs)	(42)	(42)
At 30 June 2023 (unaudited)	287	287

<i>Undrawn loan facilities</i>	<i>Stage 1</i>	<i>Total</i>
Allowance for ECL at 1 January 2022	304	304
New purchased or originated credit-related commitments	349	349
Credit-related commitments derecognized or redeemed (excluding write-offs)	(435)	(435)
Changes to inputs used for ECL calculations	95	95
Translation differences	1	1
At 30 June 2022 (unaudited)	314	314

Movements in the ECL related to guarantees issued for the six months ended 30 June 2023 and six months ended 30 June 2022 are as follows:

<i>Guarantees issued</i>	<i>Stage 1</i>	<i>Total</i>
Allowance for ECL at 1 January 2023	28	28
New purchased or originated credit-related commitments	12	12
Credit-related commitments derecognized or redeemed (excluding write-offs)	(38)	(38)
At 30 June 2023 (unaudited)	2	2

<i>Guarantees issued</i>	<i>Stage 1</i>	<i>Total</i>
Allowance for ECL at 1 January 2022	601	601
New purchased or originated credit-related commitments	97	97
Credit-related commitments derecognized or redeemed (excluding write-offs)	(598)	(598)
Changes to inputs used for ECL calculations	21	21
Translation differences	71	71
At 30 June 2022 (unaudited)	192	192

20. Leases**Bank as lessor**

The Bank provides its investment property for operating leases. As at 30 June 2023, the Bank's non-cancelable operating lease rentals amount to EUR 1,033 thousand and will be settled within 1 month – 1 year and EUR 492 thousand within 1-2 year (31 December 2022: EUR 1,000 thousand and will be settled within 1 month – 1 year and 1-2 years EUR 130 thousand).

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*(Thousands of euros)***21. Interest income and interest expenses**

Net interest income comprises:

	<i>Six months ended 30 June (unaudited)</i>	
	<i>2023</i>	<i>2022</i>
Interest income		
<i>Interest income calculated using the EIR method</i>		
Loans to customers	14,088	24,585
Deposits with banks and other financial institutions, including cash and cash equivalents	5,809	699
Loans to banks	3,535	2,681
Securities at fair value through other comprehensive income	1,459	1,737
Securities at amortized cost	347	493
Other	167	15
<i>Other interest income</i>		
Cross-currency interest rate swaps covering long-term currency risks	3,405	9,559
Investments at fair value through profit or loss	93	457
Total interest income	28,903	40,226
Interest expenses		
<i>Interest expenses calculated using the EIR method</i>		
Debt securities issued	(16,038)	(21,178)
Long-term loans of banks	(1,895)	(900)
Current customer accounts	(68)	(86)
Subordinated perpetual deposit	(3)	–
Due to banks and other financial institutions	–	37
Other	(31)	(129)
<i>Other interest expenses</i>		
Cross-currency interest rate swaps covering long-term currency risks	(2,585)	(6,790)
Total interest expenses	(20,620)	(29,046)
Net interest income	8,283	11,180

22. Net losses from operations with foreign currencies and derivatives

Net losses from operations with foreign currencies and derivatives comprise:

	<i>Six months ended 30 June (unaudited)</i>	
	<i>2023</i>	<i>2022</i>
Derivative financial instruments and operations with foreign currencies		
Net losses from operations with foreign currencies and derivatives	(14,586)	(96,166)
Net gains from revaluation of derivative financial instruments	2,645	90,767
Total derivative financial instruments and operations with foreign currencies	(11,941)	(5,399)
Translation differences		
Net gains/(losses) from revaluation of assets and liabilities in foreign currencies	2,481	(74,870)
Net losses from operations in foreign currencies and with derivatives	(9,460)	(80,269)

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*(Thousands of euros)***23. General and administrative expenses**

General and administrative expenses comprise:

	<i>Six months ended 30 June (unaudited)</i>	
	<i>2023</i>	<i>2022</i>
Employee compensations and employment taxes	5,882	5,360
IT expenses, inventory and occupancy expenses	1,196	1,049
Depreciation and disposal of property, equipment and intangible assets	923	1,031
Professional services	309	118
Expenses related to business travel, representative and accommodation expenses	57	326
Other	218	134
General and administrative expenses	8,585	8,018

24. Risk management**Risk management framework**

The Bank's risk management policy is based on the conservative assessment approach and is mainly aimed at the mitigation of the adverse impact of risks on the Bank's results, i.e. on the safety and reliability of fund allocation while maintaining the reasonable level of profitability. The conservative assessment approach assumes that the Bank does not enter into potential transactions with a 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 the level of the appropriate types of risks;
- ▶ Monitor the level of the risk and its compliance with established limits;
- ▶ Develop and implement regulative and methodological documents as well as software applications that ensure professional risk management for the bank transactions.

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

Risk management system

Integrated into the whole vertical organizational structure of the 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 are involved in the identification, assessment, and monitoring of risks and comply with internal regulations on risk management, as well as give due consideration to the risk level in the preparation of transactions.
- ▶ Risk management (2nd line of defense): the division responsible for risk management develops risk management tools and methodology, assesses and monitors the risk level, prepares reports on risks, carries out risk aggregation, and calculates the amount of total capital requirements.
- ▶ Internal audit (3rd line of defense): independent quality assessment for existing risk management processes, identification of violations, and proposals for the improvement of the risk management system.

*(Thousands of euros)***24. Risk management (continued)****Risk management system (continued)**

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

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

Credit risk

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

The Bank creates an allowance for a financial instrument in accordance with IFRS 9 that represents its estimates of losses on such a financial instrument. A financial instrument can be written off against the related allowance for expected credit losses only upon permission of the IIB's Board of Governors and where the financial instrument is determined as uncollectable and all necessary steps to collect the financial instrument are completed. Such decision is made after consideration of the information on significant changes in counterparty's financial position such as inability to repay the financial instrument and when proceedings from disposal of the collateral are insufficient to cover the debt amount in full.

The total amount of the impairment allowance is approved by the Credit Committee on a monthly basis.

The tables below provide an analysis of the Bank's internal expected credit loss rating scale as of 30 June 2023 and how it correspond to the external ratings of the S&P credit rating service.

<i>Internal assessment</i>	<i>External ratings equivalent</i>	<i>Internal ratings equivalent</i>
Excellent	AAA-AA-	A1-A3
Very strong	A+-A-	A4-A6
Strong	BBB+-BBB-	A7-A9
Good	BB+-BB-	B1-B3
Fair	B+-B-	B4-B6
Special attention	CCC+-CCC-	C1-C3
Expected loss	CC-D	SD-D

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(Thousands of euros)

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

The table provides overview of the exposure amount and allowance for credit losses by long-term loans to banks (Note 10) and loans to customers (Note 11) class broken down into stages as per IFRS 9 requirements as at 30 June 2023 and 31 December 2022:

30 June 2023 Internal risk rating category	Amount				Allowance for impairment			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Long-term loans to banks								
Good	10,880	–	–	10,880	16	–	–	16
Fair	38,441	–	–	38,441	127	–	–	127
Special attention	50,001	–	–	50,001	1,345	–	–	1,345
Loans to customers at amortized cost								
Strong	–	48,364	–	48,364	–	7,611	–	7,611
Good	–	75,161	–	75,161	–	699	–	699
Fair	51,614	93,642	–	145,256	464	961	–	1,425
Special attention	105,430	4,858	–	110,288	3,817	390	–	4,207
Expected loss	–	296	–	296	–	296	–	296
Loans to customers at fair value through other comprehensive income								
Good	–	34,753	–	34,753	–	3,143	–	3,143
Fair	–	18,476	–	18,476	–	1,870	–	1,870
	256,366	275,550	–	531,916	5,769	14,970	–	20,739

31 December 2022 Internal risk rating category	Amount				Allowance for impairment			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Long-term loans to banks								
Good	10,701	–	–	10,701	60	–	–	60
Fair	45,636	–	–	45,636	1,072	–	–	1,072
Special attention	50,149	–	–	50,149	1,349	–	–	1,349
Loans to customers at amortized cost								
Strong	45,275	–	–	45,275	74	–	–	74
Good	82,404	–	–	82,404	244	–	–	244
Fair	211,835	–	–	211,835	1,950	–	–	1,950
Special attention	125,578	–	52,705	178,283	5,251	–	18,447	23,698
Expected loss	–	295	–	295	–	295	–	295
Loans to customers at fair value through other comprehensive income								
Good	26,305	–	–	26,305	60	–	–	60
Fair	25,770	–	–	25,770	430	–	–	430
	623,653	295	52,705	676,653	10,490	295	18,447	29,232

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

*(Thousands of euros)***24. Risk management (continued)****Liquidity risk (continued)**

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 Regulations for IIB's Liquidity Position Management that enables the development of the liquidity position management function provided for by IIB's Assets and Liabilities Management Policy, as an integral part of the general function of the Bank's management.

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

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

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 a liquidity shortage that is critical to the Bank's solvency.

The liquidity buffer is formed primarily of liquidity reserves, namely nostro accounts and deposits with banks and other financial institutions. The Bank calculates its liquidity reserves as at the reporting date and for the next twelve monthly reporting dates (forecast). The liquidity buffer may be used to close the negative net position. As at 30 June 2023, the liquidity buffer amounts to EUR 161.3 million (31 December 2022: EUR 202.9 million).

Credit-related commitments of the Bank are stated in accordance with contractual maturities in the table presented below. Where there is no contractual schedule of credit-related commitments, these obligations are included into the earliest date on which the client can demand their execution. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	30 June 2023 (unaudited)	31 December 2022
1 to 3 months	–	4,037
3 months to 1 year	–	18,175
1 to 5 years	22,153	13,490
Credit-related commitments	22,153	35,702

On 30 June 2023 credit-related commitment in the amount of EUR 22,440 thousand is included in the term of 1 to 5 years, however the Bank is deprived of the technical ability to work and fulfill its commitments to European counterparties (31 December 2022: EUR 13,490 thousand is included in the term of 1 to 5 years based on professional judgment and experience of relationship with the counterparty).

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(Thousands of euros)

24. 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.

	30 June 2023 (unaudited)								31 December 2022						
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Past due	Excluded from analysis	Total	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not stated maturity	Total
Financial assets															
Cash and cash equivalents	40,194	–	–	–	–	–	986	41,180	163,688	–	–	–	–	–	163,688
Deposits with banks and other financial institutions	–	72,383	–	–	–	3,443	116,868	192,694	–	53,848	6,587	15,330	–	72,079	147,844
Derivative financial assets	546	–	–	–	–	–	2,207	2,753	–	–	7,185	6,856	–	–	14,041
Investments at fair value through profit or loss	–	–	–	–	–	–	–	–	14,219	–	–	–	–	–	14,219
Securities at fair value through other comprehensive income	–	64	58	15,928	–	–	120,230	136,280	252	301	155,669	–	–	–	156,222
Securities at amortized cost	–	–	42	18,478	–	–	13,717	32,237	–	160	319	42,676	18,979	–	62,134
Loans to banks	6,953	2,536	15,218	24,484	48,643	–	–	97,834	7,099	898	13,079	34,307	48,622	–	104,005
Loans to customers	2,788	6,589	36,061	86,151	21,175	2,052	263,540	418,356	18,907	13,884	71,435	332,630	107,050	–	543,906
Other financial assets	77	149	5	80	–	–	1,051	1,362	314	181	2	–	–	–	497
Total financial assets	50,558	81,721	51,384	145,121	69,818	5,495	518,599	922,696	204,479	69,272	254,276	431,799	174,651	72,079	1,206,556
Financial liabilities															
Due to banks and other financial institutions	–	(134)	–	–	–	–	(50)	(184)	–	–	–	(1,620)	–	–	(1,620)
Derivative financial liabilities	–	–	–	–	–	–	(4,616)	(4,616)	(446)	(2,757)	(13,314)	(17,578)	–	–	(34,095)
Current customer accounts	(3,466)	–	–	–	–	–	–	(3,466)	(7,599)	–	–	–	–	–	(7,599)
Long-term loans of banks	–	–	(6,295)	(22,576)	(8,466)	(215)	(5,138)	(42,690)	–	(3,337)	(2,885)	(27,847)	(11,542)	–	(45,611)
Debt securities issued	–	–	(1,756)	(127,052)	–	(28,598)	(498,643)	(656,049)	(2,616)	(124,973)	(315,696)	(410,403)	(29,578)	–	(883,266)
Other financial liabilities	(187)	(2)	(496)	(391)	–	(869)	–	(1,945)	(261)	(872)	(128)	(105)	–	–	(1,366)
Total financial liabilities	(3,653)	(136)	(8,547)	(150,019)	(8,466)	(29,682)	(508,447)	(708,950)	(10,922)	(131,939)	(332,023)	(457,553)	(41,120)	–	(973,557)
Net position	46,905	81,585	42,837	(4,898)	61,352	(24,187)	10,152	213,746	193,557	(62,667)	(77,747)	(25,754)	133,531	72,079	232,999
Accumulated net position	46,905	128,490	171,327	166,429	227,781	203,594	213,746		193,557	130,890	53,143	27,389	160,920	232,999	

* The assets and liabilities excluded from the liquidity risk analysis are: IIB cash and securities held by Euroclear due to the limited ability to predict the date of their return to IIB; European loan portfolio and issued bonds under the MTN program due to unilateral closure by European financial institutions of IIB Nostro accounts in European currencies (following the inclusion of IIB to the US OFAC list) and the resulting ongoing constraints in processing payments under the IIB MTN Programme for European investors.

*(Thousands of euros)***24. Risk management (continued)****Market risk**

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

The 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 and price risk

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

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(Thousands of euros)

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

The Bank has assets and liabilities denominated in several foreign currencies. The financial position and the cash flows are exposed to the effects of fluctuations in foreign currency exchange rates. Non-monetary financial instruments and financial instruments denominated in functional currency are not exposed to currency risk. The Bank's exposure to currency risk as at 30 June 2023 and 31 December 2022 are presented below:

	30 June 2023 (unaudited)						
	EUR	USD	RUB	HUF	RON	Other currencies	Total
Non-derivative financial assets							
Cash and cash equivalents	3	8	40,182	–	987	–	41,180
Deposits with banks and other financial institutions	32,931	53,039	72,383	20,950	12,691	700	192,694
Securities at fair value through other comprehensive income	63,016	53,825	19,439	–	–	–	136,280
Securities at amortized cost	18,519	13,718	–	–	–	–	32,237
Long-term loans to banks	48,656	49,178	–	–	–	–	97,834
Loans to customers	260,716	41,534	41,654	29,636	44,816	–	418,356
Other financial assets	807	204	186	163	2	–	1,362
Total non-derivative financial assets	424,648	211,506	173,844	50,749	58,496	700	919,943
Non-derivative financial liabilities							
Due to banks and other financial institutions	(184)	–	–	–	–	–	(184)
Current customer accounts	(3,464)	(2)	–	–	–	–	(3,466)
Long-term loans of banks	–	(37,337)	–	(5,353)	–	–	(42,690)
Debt securities issued	(104,696)	–	(128,808)	(64,068)	(133,091)	(225,386)	(656,049)
Other financial liabilities	(502)	(569)	(742)	(132)	–	–	(1,945)
Total non-derivative financial liabilities	(108,846)	(37,908)	(129,550)	(69,553)	(133,091)	(225,386)	(704,334)
Net balance sheet position (excluding derivative financial instruments)	315,802	173,598	44,294	(18,804)	(74,595)	(224,686)	215,609
Derivative financial instruments							
Claims	59,317	9,236	546	–	51,201	–	120,300
Liabilities	(59,415)	(52,866)	(9,882)	–	–	–	(122,163)
Net balance sheet position, including derivative financial instruments	315,704	129,968	34,958	(18,804)	(23,394)	(224,686)	213,746

(Thousands of euros)

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

	<i>31 December 2022</i>						
	<i>EUR</i>	<i>USD</i>	<i>RUB</i>	<i>HUF</i>	<i>RON</i>	<i>Other currencies</i>	<i>Total</i>
Non-derivative financial assets							
Cash and cash equivalents	103,744	7,197	37,527	12,679	2,051	490	163,688
Deposits with banks and other financial institutions	33,439	47,662	33,156	852	32,735	—	147,844
Investments at fair value through profit or loss	5,069	—	9,150	—	—	—	14,219
Securities at fair value through other comprehensive income	61,154	89,117	5,951	—	—	—	156,222
Securities at amortized cost	38,823	23,311	—	—	—	—	62,134
Long-term loans to banks	48,800	55,205	—	—	—	—	104,005
Loans to customers	272,442	46,557	145,804	33,155	45,948	—	543,906
Other financial assets	211	39	73	174	—	—	497
Total non-derivative financial assets	563,682	269,088	231,661	46,860	80,734	490	1,192,515
Non-derivative financial liabilities							
Due to banks and other financial institutions	(1,620)	—	—	—	—	—	(1,620)
Current customer accounts	(7,596)	(3)	—	—	—	—	(7,599)
Long-term loans of banks	—	(40,843)	—	(4,768)	—	—	(45,611)
Debt securities issued	(104,821)	—	(328,485)	(59,182)	(170,447)	(220,331)	(883,266)
Other financial liabilities	(270)	(1)	(871)	(224)	—	—	(1,366)
Total non-derivative financial liabilities	(114,307)	(40,847)	(329,356)	(64,174)	(170,447)	(220,331)	(939,462)
Net balance sheet position (excluding derivative financial instruments)	449,375	228,241	(97,695)	(17,314)	(89,713)	(219,841)	253,053
Derivative financial instruments							
Claims	223,033	9,551	40,185	53,964	110,633	111,717	549,083
Liabilities	(340,530)	(166,128)	(24,131)	(38,348)	—	—	(569,137)
Net balance sheet position, including derivative financial instruments	331,878	71,664	(81,641)	(1,698)	20,920	(108,124)	232,999

*(Thousands of euros)***25. Fair value measurements**

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

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

Fair value hierarchy

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

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

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of their nature, characteristics and risks of the asset or liability, and the level of the fair value hierarchy. The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 30 June 2023 and 31 December 2022:

	<i>Level 1</i> <i>30 June</i> <i>2023</i> <i>(unaudited)</i>	<i>Level 2</i> <i>30 June</i> <i>2023</i> <i>(unaudited)</i>	<i>Level 3</i> <i>30 June</i> <i>2023</i> <i>(unaudited)</i>	<i>Total</i> <i>30 June</i> <i>2023</i> <i>(unaudited)</i>
Assets measured at fair value				
Derivative financial assets	–	2,753	–	2,753
Government bonds at fair value through other comprehensive income	32,813	–	–	32,813
Corporate bonds at fair value through other comprehensive income	48,825	54,642	–	103,467
Loans to customers at fair value through other comprehensive income	53,229	–	–	53,229
Investment property	–	–	33,392	33,392
Property and equipment – buildings	–	–	56,211	56,211
Liabilities measured at fair value				
Derivative financial liabilities	–	4,616	–	4,616
Assets for which fair values are disclosed				
Cash and cash equivalents	919	40,261	–	41,180
Deposits with banks and other financial institutions	–	87,313	105,381	192,694
Securities at amortized cost	23,922	–	–	23,922
Loans to banks at amortized cost	–	–	103,057	103,057
Loans to customers at amortized cost	55,912	–	301,836	357,748
Liabilities for which fair values are disclosed				
Due to banks and other financial institutions	–	–	184	184
Current customer accounts	–	–	3,466	3,466
Long-term loans of banks	–	–	42,690	42,690
Debt securities issued	–	112,333	528,461	640,794

*(Thousands of euros)***25. Fair value measurements (continued)****Fair value hierarchy (continued)**

	<i>Level 1</i> <i>31 December</i> <i>2022</i>	<i>Level 2</i> <i>31 December</i> <i>2022</i>	<i>Level 3</i> <i>31 December</i> <i>2022</i>	<i>Total</i> <i>31 December</i> <i>2022</i>
Assets measured at fair value				
Derivative financial assets	–	14,041	–	14,041
Corporate bonds at fair value through profit or loss	9,150	–	–	9,150
Investments at fair value through profit or loss	–	5,069	–	5,069
Government bonds at fair value through other comprehensive income	42,508	–	–	42,508
Corporate bonds at fair value through other comprehensive income	51,925	61,789	–	113,714
Loans to customers at fair value through other comprehensive income	52,075	–	–	52,075
Investment property	–	–	33,360	33,360
Property and equipment – buildings	–	–	56,579	56,579
Liabilities measured at fair value				
Derivative financial liabilities	–	34,095	–	34,095
Assets for which fair values are disclosed				
Cash and cash equivalents	458	163,230	–	163,688
Deposits with banks and other financial institutions	–	43,936	103,908	147,844
Securities at amortized cost	43,677	–	–	43,677
Loans to banks at amortized cost	–	–	102,520	102,520
Loans to customers at amortized cost	115,212	–	356,948	472,160
Liabilities for which fair values are disclosed				
Due to banks and other financial institutions	–	–	1,620	1,620
Current customer accounts	–	–	7,599	7,599
Long-term loans of banks	–	–	45,611	45,611
Debt securities issued	–	840,505	–	840,505

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(Thousands of euros)

25. Fair value measurements (continued)**Fair value of financial assets and liabilities not recorded at fair value**

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

	<i>Carrying amount 30 June 2023 (unaudited)</i>	<i>Fair value 30 June 2023 (unaudited)</i>	<i>Unrecognized gain/(loss) 30 June 2023 (unaudited)</i>	<i>Carrying amount 31 December 2022</i>	<i>Fair value 31 December 2022</i>	<i>Unrecognized gain/(loss) 31 December 2022</i>
Financial assets						
Cash and cash equivalents	41,180	41,180	–	163,688	163,688	–
Deposits with banks and other financial institutions	192,694	192,694	–	147,844	147,844	–
Securities at amortized cost	32,237	23,922	(8,315)	62,134	43,677	(18,457)
Loans to banks at amortized cost	97,834	103,057	5,223	104,005	102,520	(1,485)
Loans to customers at amortized cost	365,127	357,748	(7,379)	491,831	472,160	(19,671)
Financial liabilities						
Due to banks and other financial institutions	184	184	–	1,620	1,620	–
Current customer accounts	3,466	3,466	–	7,599	7,599	–
Long-term loans of banks	42,690	42,690	–	45,611	45,611	–
Debt securities issued	656,049	640,794	15,255	883,266	840,505	42,761
Total unrecognized change in unrealized fair value			4,784			3,148

Changes in Level 3 assets and liabilities at fair value

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

	<i>At 1 January 2023</i>	<i>Losses recorded in profit or loss / other comprehensive income</i>	<i>Additions/ (disposals)</i>	<i>At 30 June 2023 (unaudited)</i>
Assets				
Property and equipment – buildings	56,579	(432)	64	56,211
Investment property	33,360	–	32	33,392
Total	89,939	(432)	96	89,603

	<i>At 1 January 2022</i>	<i>Losses recorded in profit or loss / other comprehensive income</i>	<i>Additions/ (disposals)</i>	<i>Transfer from property and equipment</i>	<i>At 31 December 2022</i>
Assets					
Property and equipment – buildings	61,882	(1,738)	205	(3,770)	56,579
Investment property	32,311	(623)	(2,098)	3,770	33,360
Total	94,193	(2,361)	(1,893)	–	89,939

(Thousands of euros)

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

30 June 2023 (unaudited)	Credit investment activity	Treasury	Other operations	Total
Income				
External customers				
Interest income calculated using the EIR method	17,623	7,777	5	25,405
Other interest income	–	3,498	–	3,498
Fee and commission income	74	–	–	74
Income from lease of investment property	–	–	1,359	1,359
Net income from sale of loans to customers	1,471	–	–	1,471
Other segment income/(expense)	(768)	(394)	15	(1,147)
Total income	18,400	10,881	1,379	30,660
Interest expenses calculated using the EIR method	(9,134)	(8,901)	–	(18,035)
Other interest expenses	–	(2,585)	–	(2,585)
Net allowance for credit losses on financial instruments	1,060	(40,493)	28	(39,405)
Fee and commission expense	(5)	(286)	(230)	(521)
Net losses from operations with foreign currencies and derivatives	–	(9,409)	(51)	(9,460)
Net losses from operations with investments at fair value through profit or loss	–	(35)	–	(35)
Net losses from operations with investments at fair value through other comprehensive income	–	(1,588)	–	(1,588)
Net losses from operations with investments amortized cost	(4,813)	(3,283)	–	(8,096)
Other segment expenses	(13)	–	(56)	(69)
Segment results	5,495	(55,699)	1,070	(49,134)
Other unallocated expenses				(8,585)
Losses for the period				(57,719)
Development portfolio	518,046	78,799	–	596,845
Other segment assets	–	324,821	95,843	420,664
Total segment assets	518,046	403,620	95,843	1,017,509
Total segment liabilities	356,112	351,218	2,180	709,510
Other segment information				
Capital expenditures	–	–	8	8

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

(Thousands of euros)

26. Segment information (continued)

30 June 2022 (unaudited)	Credit investment activity	Treasury	Other operations	Total
Income				
External customers				
Interest income calculated using the EIR method	27,266	2,923	21	30,210
Other interest income	–	10,016	–	10,016
Fee and commission income	968	–	–	968
Income from lease of investment property	–	–	1,279	1,279
Other segment income/(expense)	1,146	506	394	2,046
Total income	29,380	13,445	1,694	44,519
Interest expenses calculated using the EIR method	(14,749)	(7,507)	–	(22,256)
Other interest expenses	–	(6,790)	–	(6,790)
Net allowance for credit losses on financial instruments	(24,452)	(4,684)	(6)	(29,142)
Fee and commission expense	(12)	(199)	(109)	(320)
Net (losses)/gains from operations with foreign currencies and derivatives	–	(80,339)	70	(80,269)
Net losses from operations with investments at fair value through profit or loss	–	(112)	–	(112)
Net gains/(losses) from operations with investments at fair value through other comprehensive income	(7,824)	214	–	(7,610)
Net losses from operations with investments amortized cost	(1,657)	(1,855)	–	(3,512)
Net losses from sale of loans to customers	(27,387)	–	–	(27,387)
Other segment expenses	(20)	(6)	(106)	(132)
Segment results	(46,721)	(87,833)	1,543	(133,011)
Other unallocated expenses				(8,018)
Losses for the period				(141,029)
Development portfolio	855,646	121,744	–	977,390
Other segment assets	–	453,160	101,213	554,373
Total segment assets	855,646	574,904	101,213	1,531,763
Total segment liabilities	810,026	463,479	3,692	1,277,197

During the six months ended 30 June 2023, the Bank's revenue from lease operations with two external counterparties (six months ended 30 June 2022: three external counterparties) exceeded 20% of the Bank's total revenue (six months ended 30 June 2023: EUR 862 thousand; six months ended 30 June 2022: EUR 1,145 thousand).

Geographical information

Allocation of the Bank's revenue from transactions with external customers based on the location of these customers for the six months ended 30 June 2023 and six months ended 30 June 2022 are presented in the table below:

	30 June 2023 (unaudited)			30 June 2022 (unaudited)		
	Member countries	Other countries	Total	Member countries	Other countries	Total
Interest income calculated using the EIR method	15,081	10,324	25,405	24,219	5,991	30,210
Other interest income	93	3,405	3,498	1,732	8,284	10,016
Income from lease of investment property	1,359	–	1,359	1,279	–	1,279

During the six months ended 30 June 2023 interest income calculated using the EIR method of member countries include revenue from transactions with customers from Russian Federation EUR 7,159 thousand (six months ended 30 June 2022: Russian Federation EUR 11,836 thousand and Romania EUR 3,546 thousand). Non-current assets of the Bank are located in member countries.

(Thousands of euros)

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

Information on risk concentration by geographical region is based on the geographical location of the Bank's counterparties. The geographical concentration of the Bank's financial assets and liabilities as at 30 June 2023 and 31 December 2022 are presented below:

	30 June 2023 (unaudited)								
	Russian Federation	Republic of Bulgaria	Hungary	Mongolia	Socialist Republic of Vietnam	Republic of Cuba	Withdrawn members	Other European and other countries	Total
Financial assets									
Cash and cash equivalents	39,275	–	919	–	–	–	986	–	41,180
Deposits with banks and other financial institutions	148,705	3,130	20,204	–	–	–	12,691	7,964	192,694
Derivative financial assets	546	–	–	–	–	–	–	2,207	2,753
Securities at fair value through other comprehensive income	16,050	–	–	–	–	–	13,893	106,337	136,280
Securities at amortized cost	18,519	–	–	–	–	–	–	13,718	32,237
Long-term loans to banks	–	–	–	30,215	18,963	48,656	–	–	97,834
Loans to customers	82,905	73,004	45,578	28,849	3,075	–	112,890	72,055	418,356
Other financial assets	176	–	171	43	5	–	328	639	1,362
Financial assets	306,176	76,134	66,872	59,107	22,043	48,656	140,788	202,920	922,696
Financial liabilities									
Due to banks and other financial institutions	(134)	–	–	–	–	–	–	(50)	(184)
Derivative financial liabilities	–	–	–	–	–	–	–	(4,616)	(4,616)
Long-term loans of banks	–	–	(5,353)	–	–	–	–	(37,337)	(42,690)
Debt securities issued	(128,808)	–	(168,764)	–	–	–	(358,477)	–	(656,049)
Other financial liabilities	(527)	–	(640)	–	–	–	–	(778)	(1,945)
Financial liabilities	(129,469)	–	(174,757)	–	–	–	(358,477)	(42,781)	(705,484)

(Thousands of euros)

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

	31 December 2022									
	<i>Russian Federation</i>	<i>Republic of Bulgaria</i>	<i>Romania</i>	<i>Hungary</i>	<i>Mongolia</i>	<i>Socialist Republic of Vietnam</i>	<i>Czech Republic</i>	<i>Republic of Cuba</i>	<i>Other countries</i>	<i>Total</i>
Financial assets										
Cash and cash equivalents	30,764	1,102	2,051	13,136	—	—	—	—	116,635	163,688
Deposits with banks and other financial institutions	72,846	—	32,735	—	—	—	—	—	42,263	147,844
Derivative financial assets	—	—	—	781	—	—	—	—	13,260	14,041
Investments at fair value through profit or loss	9,150	—	—	—	—	—	—	—	5,069	14,219
Securities at fair value through other comprehensive income	—	—	13,509	—	—	—	—	—	142,713	156,222
Securities at amortized cost	19,736	—	—	—	—	—	—	—	42,398	62,134
Long-term loans to banks	—	—	—	—	33,712	21,493	—	48,800	—	104,005
Loans to customers	194,666	77,999	101,313	49,314	28,174	4,085	15,066	—	73,289	543,906
Other financial assets	58	—	—	319	39	—	—	—	81	497
Financial assets	327,220	79,101	149,608	63,550	61,925	25,578	15,066	48,800	435,708	1,206,556
Financial liabilities										
Due to banks and other financial institutions	—	—	—	—	—	—	—	—	(1,620)	(1,620)
Derivative financial liabilities	(1,265)	—	—	—	—	—	—	—	(32,830)	(34,095)
Long-term loans of banks	—	—	—	(4,768)	—	—	—	—	(40,843)	(45,611)
Debt securities issued	(328,485)	—	(170,447)	(164,003)	—	—	(220,331)	—	—	(883,266)
Other financial liabilities	(522)	—	—	(839)	—	—	—	—	(5)	(1,366)
Financial liabilities	(330,272)	—	(170,447)	(169,610)	—	—	(220,331)	—	(75,298)	(965,958)

Other countries include non-member countries.

(Thousands of euros)

27. Related party disclosures

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

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

Volumes of related party transactions, outstanding balances at 30 June 2023 and 31 December 2022, and related expenses and income for the six months ended 30 June 2023 and six months ended 30 June 2022 are as follows:

		30 June 2023 (unaudited)	31 December 2022
		Carrying amount	Carrying amount
		Related party	
Separate statement of financial position			
Current customer accounts	Key management personnel	1,825	641
Other liabilities	Key management personnel	60	168
Other liabilities	Subsidiary	234	249
		Six months ended 30 June 2023 (unaudited)	2022 (unaudited)
		Expense	Expense
		Related party	
Separate income statement			
Interest expenses on current customer accounts	Key management personnel	(16)	(10)
Net interest expense after allowance for loan impairment		(16)	(10)
Expenses from operating activities		(16)	(10)
Employee benefits	Key management personnel	(570)	(427)
Compensation for travel expenses and medical insurance	Key management personnel	(72)	(51)
Professional services	Subsidiary	(256)	(97)
Operating expenses		(898)	(575)
Net expense for the period		(914)	(585)

In the ordinary course of business, the Bank mainly carries out transactions with entities from the Bank member countries. In the ordinary course of business, the Bank also engages into contractual relationships with government-related organizations. Balances and income from operations with government and government-related organizations are as follows:

		30 June 2023 (unaudited)	31 December 2022
Separate statement of financial position			
Investments at fair value through profit or loss		—	9,105
Securities at fair value through other comprehensive income		5,349	3,503
Securities at amortized cost		18,519	19,736
Loans to banks		48,656	49,821
Loans to customers		127,434	145,333
Commitment and contingencies			
Undrawn loan facilities		2,000	4,395

(Thousands of euros)

27. Related party disclosures (continued)

	<i>Six months ended 30 June</i>	
	<i>2023</i> <i>(unaudited)</i>	<i>2022</i> <i>(unaudited)</i>
Separate income statement		
Interest income calculated using the EIR method	5,458	8,498
Fee and commission income	–	1
Net (losses)/gains from operations with investments at fair value through profit or loss	(123)	(110)
Net (losses)/gains from operations with securities at fair value through other comprehensive income	–	(689)
Net losses from sale of loans to customers	–	(15,447)
Other expenses	(5)	(2)

28. Capital adequacy

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

The Basel Committee on Banking Supervision recommends maintaining the ratio of capital to risk-weighted assets ("capital adequacy ratio") above the prescribed minimum level. As at 30 June 2023, this minimum level was 8% (31 December 2022: 8%).

Besides, taking into account the Bank's status as a multilateral development institution and the structure of the Bank's member countries, the IIB's Board of Governors set the capital adequacy ratio at the level of not less than 25% as at 30 June 2023 (31 December 2022: 25%).

The following table shows the composition of the Bank's capital position calculated in accordance with the Basel Accord (Basel II) as at 30 June 2023 and 31 December 2022.

	<i>30 June</i> <i>2023</i> <i>(unaudited)</i>	<i>31 December</i> <i>2022</i>
Capital		
Tier 1 capital	255,567	354,673
Tier 2 capital	68,617	–
Total regulatory capital	324,184	354,673
Risk-weighted assets		
Credit risk	594,360	785,163
Market risk	363,816	298,584
Operational risk	53,888	53,566
Total risk-weighted assets	1,012,064	1,137,313
Total capital expressed as a percentage of risk-weighted assets, % ("capital adequacy ratio")	32.03%	31.19%
Total tier 1 capital expressed as a percentage of risk-weighted assets, % ("tier 1 capital adequacy ratio")	25.25%	31.19%

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*(Thousands of euros)***29. Events after the reporting period**

On 15 August 2023 the Republic of Bulgaria and on 19 October 2023 the Hungary withdrew from the Bank's membership. Also following the decisions of the Board of Governors, on the date of the withdrawal of the Republic of Bulgaria the Bank restructured its paid-in capital and converted part of the Russian Federation's share into a subordinated perpetual deposit in total amount EUR 42,000 thousand. The paid-in capital of the International Investment Bank totalled EUR 107,816 thousand.

As the Bank was deprived of the technical ability to work and fulfill its obligations in Europe due to unilateral actions of European financial institutions, US sanctions and the designation of the Bank to the US OFAC SDN list:

On the 28 September 2023, the Bank was unable to repay bonds and coupon in amount HUF 15,337 million (EUR 39,241 thousand).

On the 7 October 2023, the Bank was unable to repay bonds and coupon in amount RON 351,536 thousand (EUR 70,810 thousand).

On the 16 October 2023, the Bank was unable to repay bonds in amount EUR 50,000 thousand.

On the 19 October 2023, the Bank was unable to repay bonds and coupon in amount RON 207,800 thousand (EUR 41,794 thousand).

On the 26 October 2023, the Bank was unable to repay coupon in amount CZK 56,250 thousand (EUR 2,278 thousand).

(End).